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TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 1985

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS
UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

SECOND SESSION

Administrative Conference of the United States
Advisory Commission on Intergovernmental Relations
Advisory Committee on Federal Pay
Committee for Purchase From the Blind and Other Severely Handicapped
Department of Justice
Department of the Interior
Department of the Treasury
Executive Office of the President
Federal Election Commission
Federal Labor Relations Authority
General Services Administration
Nondepartmental witnesses
U.S. Merit Systems Protection Board
U.S. Postal Service
U.S. Tax Court

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TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 1985

MONDAY, MARCH 5, 1984

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 2:05 p.m., in room SD-124, Dirksen Senate Office Building, Hon. James Abdnor (chairman) presiding.

Present: Senator Abdnor.

COMMITTEE FOR PURCHASE FROM THE BLIND AND OTHER SEVERELY HANDICAPPED

STATEMENT OF CLYDE C. COOK, CHAIRMAN

ACCOMPANIED BY CHARLES W. FLETCHER, EXECUTIVE DIRECTOR

CHAIRMAN'S OPENING REMARKS

Senator ABDNOR. The Subcommittee on Treasury, Postal Service and General Government will come to order.

This is our initial hearing, our first of the season as we get into our appropriations bills. As you know, this committee has many agencies we will be hearing from in the weeks ahead. Today we have taken on quite a number so we are going to have to move right along.

I am sure all of you folks have been before this committee enough times to know that your printed testimonies will be made a part of the record.

We are going to ask everyone to summarize. And I know you will be very cooperative on that.

We start by hearing from the Committee for Purchase from Blind and Severely Handicapped. The Federal Elections Commission will be with us, the Merit Systems Protection Board, the Office of Special Counsel, the Federal Labor Relations Authority, the U.S. Tax Court, the Administrative Conference of the United States, and the Advisory Committee on Federal Pay.

You can see all these groups will be before us and we will try to complete today.

So with that, if Senator DeConcini does come in, and I know he will at a later time, and wants to make an opening statement, he will be most welcome to do it.

PREPARED STATEMENT

But we are going to hear first from Charles Fletcher, the Executive Director of the Committee for Purchase from Blind and Severely Handicapped. We do welcome you to the committee. Go right ahead however you care to, bearing in mind that your entire statement will be made a part of the record.

Mr. FLETCHER. Mr. Chairman, I am Mr. Fletcher. Mr. Cook, the Committee Chairman, is here with me and he will make the opening statement.

Senator ABDNOR. All right Mr. Cook, it is a pleasure to have you.

Mr. COOK. Thank you, sir. As you requested, we will submit a summary on the appropriations for 1985.

[The statement follows:]

STATEMENT OF CLYDE C. COOK

Mr. Chairman, we are pleased to appear here today to present the appropriations request of the Committee for Purchase from the Blind and Other Severely Handicapped for fiscal year 1985.

This committee was created by the Javits-Wagner-O'Day Act (Public Law 92-28) in 1971. The committee is the successor to the Committee on Purchases of Blind-Made Products established by the Wagner-O'Day Act of 1938. Its purpose is to increase employment opportunities for blind and other severely handicapped, and whenever possible, to prepare these individuals to engage in normal competitive employment. The committee's primary means for achieving its objective is to direct the Government's procurement of selected commodities and services to qualified workshops serving the blind and other severely handicapped.

The 15 members on the committee are appointed by the President. Eleven members represent various Government agencies and four are private citizens who are conversant with the problems of employing blind and other severely handicapped persons.

Under the act, the committee has the responsibility for determining which products and services the Federal Government buys are suitable for provision by qualified workshops serving the blind and other severely handicapped. The committee establishes the prices which the Government must pay for those commodities and services.

The committee has a full-time staff of 12 persons to assist in the implementation of the program. The staff is responsible for developing recommendations and proposals for the consideration of the committee. Operationally, it supervises the selection and assignment of new commodities and services; assists in establishing the fair market price and reviewing price changes; verifies the qualifications and monitors the performance of workshops; and serves as a vital link between the workshops and the Federal Government in expanding the program and resolving production problems. In addition, the staff handles all of the administrative functions for the committee such as developing policies and procedures, initiating and responding to correspondence, preparing the committee's budget, and performing all the functions required of an independent Government agency.

During the past year, the committee has continued its progress in expanding the benefits of the Javits-Wagner-O'Day Act to increasing numbers of blind and other severely handicapped individuals.

Workshops sales to the Federal Government under the committee's program during fiscal year 1983 were $200 million. In addition, sales through the military resale program were over $14 million for a total of over $214 million under this program. This represents an increase of $39 million over the total workshop sales of $175 million in fiscal year 1982.

Blind workshop sales, including those through the military resale program, increased from $119 million in fiscal year 1982 to over $138 million in the past year.

Government sales by other severely handicapped workshops under this program were $76 million, an increase of nearly $20 million over fiscal year 1982.

During the past year, the committee approved the addition of 48 commodities and 86 services to the procurement list with a total annual value of $21 million. These additions created new jobs for nearly 800 blind and other severely handicapped individuals.

As of September 30, 1983, there were 272 blind and other severely handicapped workshops producing products or providing services for the Federal Government, an increase of 45 over the year before. This trend is expected to continue in fiscal years 1984 and 1985 with a commensurate increase in the workload of the committee staff.

The committee staff made 157 visits to workshops in fiscal year 1983 to insure their compliance with the act and the committee's regulations and to resolve production problems in producing commodities or providing services under the act. We are planning about the same number of staff visits to workshops in fiscal years 1984 and 1985.

The committee's appropriation for fiscal year 1984 was $687,000. We plan to absorb within our fiscal year 1984 appropriation of $687,000 the increases in pay in fiscal year 1984 of about $14,000, due mainly to the Federal pay raise which went into effect on January 1, 1984.

Our appropriation request for fiscal year 1985 is for $710,000. This is an increase of $23,000 over the appropriation for fiscal year 1984. The largest increase is in the pay for full-time personnel. The balance consists of a number of minor adjustments in our forecasted costs in fiscal year 1985.

Our budget request for fiscal year 1985 represents the minimum funds required by the committee in carrying out its responsibilities for expanding employment opportunities for the Nation's blind and other severely handicapped.

JAVITS-WAGNER-O'DAY ACT PROGRESS

Mr. Cook. As indicated in that prepared statement, during 1983 the committee has continued its progress in expanding the benefits of the Javits-Wagner-O'Day Act to increasing numbers of blind and other severely handicapped.

The number of added jobs in the fiscal year just past was 787. Workshops had over 200 million dollars' worth of sales to the Government during last year.

The committee's appropriation for fiscal year 1984 was $687,000. We plan to absorb within the fiscal year 1984 appropriation of the $687,000 the entire increase in pay in fiscal year 1984 of about $14,000, due mainly to the Federal pay raise which went into effect January 1, 1984.

Our appropriation request for fiscal year 1985 is for $710,000. This is an increase of $23,000 over the appropriation for fiscal year 1984. The largest increase is in pay for full-time personnel. The balance consists of a number of minor adjustments in our forecasted costs in fiscal year 1985.

Mr. Chairman, our budget request for fiscal year 1985 represents what I believe to be the absolute minimum funds required if the President's committee is to carry out its responsibilities for expanding the employment opportunities for the Nation's blind and other severely handicapped.

We would be happy to answer questions.

Senator Abdnor. Thank you, Mr. Cook. One thing about smaller agencies, they can be very quickly scrutinized. The only question is are you comfortable and can you live with the budget projected here for 1985?

The committee projects a procurement list of 1,910 items in fiscal year 1985, I believe, and for the record could you provide a list of these products for us so we can see what we are talking about and could you give us a brief outline of what the procedures are in selecting a product for the list. How do you determine what goes on?

[The information follows:]

LIST OF COMMODITIES, SERVICES, AND MILITARY RESALE COMMODITIES APPROVED BY THE COMMITTEE FOR PURCHASE FROM THE BLIND AND OTHER SEVERELY HANDICAPPED FOR PROVISIONS TO THE GOVERNMENT UNDER PUBLIC LAW 92-28

NAMES OF ITEMS ON PROCUREMENT LIST

COMMODITIES

Adapter, battery terminal.

Ammonia inhalant solution.

Aprons: construction worker; food handling; impermeable; and laboratory.

Archboard files.

Ash receiver.

Bags: assembly, crew relief; barracks; cloth; coin; cotton; evidence; firefighter's sleeping; flyer's kit; laundery; lunch; motion sickness; plastic; soiled clothes: hospital and submarine; tool; urine collection; and waterproofing.

Ballpoint pens.

Ballpoint pen, stick type.

Band, helmet, camouflage.

Bandage, muslin.

Bedsheet.

Bedspreads.

Bedsprings.

Belts: automobile safety; coat; individual equipment; M.P.; and trousers.

Binders: awards certificate; looseleaf; note pad; and presentation style.

Binding, snowshoe.

Blackboards.

Blanket, bed/bath.

Block, currency packing.

Board, wall calendar.

Bookcases, wood.

Bookends.

Boxes: filing; dental mailing; shipping; tool; and wood.

Brooms: push; upright; and whisk.

Brushes: chassis and running gear; aircraft cleaning; dusting; floor sweeping; sanitary; scrub; shoe and stove; and wire scratch.

Brush, wire, stainless steel.

Brush set, shoe and stove.

Bulletin boards.

Cable assemblies.

Calendar pads.

Caps: food handler's; and operating, surgical.

Card, guide, file.

Card index.

Card set, guide, file.

Carrier entrenching tool.

Cases: carrying; ear plug; field, first aid; flag, interment; maintenance and operating; maintenance, equipment, small arms; map and note; and spectacles.

Chipboard.

Circuit card assemblies.

Cleaner, tobacco pipe.

Clipboards: files; and pilot's.
Cloths: filter; polishing; and wiping.
Clothes stop.
Clothing, operating room.
Costumer, wood.
Covers: bed; field pack, camouflage; footwear; helmet; ironing board; litter; mattress; seat; service cap; and water canteen.
Credenza.
Creeper, mechanic's.
Cup, plastic.
Curtain, shower.
Cushion assembly: back rest; and seat back.
Cushion seat.
Decalcomania.
Desk tray.
Detergent, general purpose.
Dining packets: dietetic; hospital; and inflight.
Dishwashing compound.
Disinfectant, detergents.
Divider, separation.
Drapes, surgical.
Dress, operating.
Easel, display and training.
Envelopes: crystal clear; transparent; and wallet.
Eraser, mechanical pencil.
Fasteners, fence post.
Fieldpack, canvas.
File backer, paper.
File backs.
File fronts.
File, horizontal desk.
Filter, air-conditioning.
Flags, signal.
Flashlights.
Flatware, plastic.
Flatware set, plastic.
Folders: chapel program; and file.
Folder set, file.
Food packets, survival, aircraft.
Glass cleaner.
Gowns: hospital, patient bedshirt, personnel; operating surgical; and patient examining.
Hand truck.
Handles: mop; paint roller; and wood.
Harness assembly.
Harness, head.
Headband, helmet liner.
Holders: desk memorandum; and identification.
Hoods; anti-flash; sleeping bag; and spray painter's.
Illustrative sheet.
Insect bar.
Iodine ampoules.
Jacket, filing, wallet.
Kits: aircraft cleaning; deep water fording; sewing; shaving; sampling, spectrometic; and suture removal.
Lantern, head.
Lanyard, pistol.
Lath, wood.

Lead seal.

Lights: desk; and marker, distress.

Line, tent.

Litter, folding.

Markers: I.D., plastic; and tube type.

Mask, extreme cold weather.

Mats: abrasive; and floor.

Mattresses: cotton-felt; foam; innerspring; and plastic-coated.

Mattress and bedspring set.

Message dropper.

Micro bleeder.

Mirror and bracket assembly.

Mops: dusting, cotton; wet; and wet, cellulose.

Mopheads: dusting, cotton; and wet.

Neckband, helmet liner.

Neckerchief.

Necklace, I.D.

Neckties.

Net, laundery.

Notebook, stenographer's.

Pads: bakery; cooling, chemical; examining table; floor polishing machine; helmet, flight deck and crewman's; hospital stretcher; litter; mattress; parachutists' helmet; scouring; typewriter; and writing paper.

Pajamas, ladies.

Pallets: material handling; warehouse; and wood.

Paper, clip.

Papers: carbon, typewriter; looseleaf, blank; looseleaf, ruled; teletyperwriter; and writing.

Paper set, manifold and carbon.

Paper trimmer.

Paperweight, shotfield.

Pen set, desk.

Pencils: fine-line writing; general writing; and mechanical.

Pennants, signal.

Perforator, paper.

Picture frames.

Pillows: bed; and passenger, headrest.

Pillowcases: cotton; cotton-polyester; and disposable.

Pin, tent: aluminum; and wood.

Plate, marking, blank.

Pockets: ammunition magazine; and leather.

Pocket planning set.

Pole section, tent.

Portfolios.

Protectors: hospital bed, mattress; hospital bed, pillow; and trousers, pistol.

Refills: appointment book; ballpoint pen; list finder; and pocket planning set.

Rinse additive, dishwashing.

Robes: ladies; and nomex.

Safety guard.

Scabbard, bayonet-knife.

Scarfs: branch of service; man's; and neckwear.

Scraper and squeegee.

Screwdrivers: cross tip; and flat tip.

Seal, metal band.

Seat assembly.

Sheath, pen and pencil.

Shelter half tent.

Shirt, operating.

Sign kit, vehicle.
Slide fastener units.
Slings, adjustable.
Smock, dental operating.
Soap, toilet.
Socks, extreme cold weather.
Spoon, picnic, plastic.
Sponges: Cellulose; and plastic.
Squeegee.
Stakes, wood.
Stand, calendar pad.
Stepladders.
Straps: cargo tie down; chin; helmet; mail carrier's; mail tray; patient securing; and waist.
Suit, convalescent.
Surgical: dressing set; and packs.
Suspenders: equipment; and trousers.
Suspension assembly, helmet.
Swab, small arms.
Tables: steel; and wood.
Tablecloth.
Tag: key; and marker.
Tape, paper, computing machine.
Test set, lead.
Thimerosal tincture.
Tongs, food serving.
Toothbrush, aspiration.
Tourniquet, nonpneumatic.
Towels: bath; machinery wiping; and paper.
Traffic safety clothing.
Tree shade.
Trousers, operating.
Tubes: bleeding; and mailing and filing.
Urinal, incontinent.
Urinary drainage set.
Valve, ball.
Wall clocks.
Washcloths.
Wedge, wood.
Weight, canvas bag.
Wheel chocks.
Whistle, ball plastic.
Wire bundle assemblies.
Wrapper, sterilization.

MILITARY RESALE COMMODITIES

All purpose cleaner.
Brooms.
Brushes.
Clothesline, plastic.
Clothespins, plastic.
Deodorizers.
Dish coths.
Dusting cloths.
Dustpans.
Fabric softener sheets.
Fine tip markers.
Fly swatter.
Garden tools.
Ironing board.
Ironing board covers.
Laundry bags.
Mops and refills.
Mopheads and refills.
Mop handles.
Oven mitt.
Paint rollers and covers.
Pencil, mechanical.

MILITARY RESALE COMMODITIES—*Continued*

Pens.
Plastic cutlery.
Potholder.
Room air freshners.
Scrubbers.
Sponges.
Towel, kitchen.
Washcloths.
Wax applicators.

SERVICES

Administrative.
Assembly of belt trousers.
Assembly of food packets.
Assembly of living kit.
Bursting and packaging of commemorative stamps.
Cardboard and paper scrap recovery.
Carwash.
Catering.
Commissary shelf stocking.
Commissary shelf stocking and custodial.
Currency packaging.
Drill sharpening.
Food service.
Food service attendant.
Furniture rehabilitation.
Grounds maintenance.
Janitorial/custodial.
Janitorial/elevator operator
Keypunch and verification.
Laundry.
Mailing.
Mattress and box spring rehabilitation.
Metal furniture rehabilitation.
Microfilm reproduction.
Microfilming contract files.
Operation of visitor's center gift shop.
Packaging.
Pallet repair.
Parts sorting.
Photocopying.
Publications distribution.
Repair and maintenance of electric and manual typewriters.
Report of air cargo pallet top and side nets.
Repair of rubberized items.
Seedling harvesting.
Sewing.
Shrink wrapping gift packages.
Sponge rubber mattresses rehabilitation.
Tax form order fulfillment.

OPERATING PROCEDURES OF COMMITTEE

Mr. Cook. The procedures themselves, sir?

Senator Abdnor. Yes.

Mr. Cook. Based on the statute, Public Law 92-28, the operating procedures are developed by the committee staff and are then presented to the 15 members of the committee for approval.

Senator Abdnor. How often does your committee meet?

Mr. Cook. Ordinarily once a month.

Senator Abdnor. Once a month. Are most of the members from throughout the country?

Mr. Cook. No; most of them are in Washington. All of the private citizens on the committee are from outside the Washington area. One is from Nevada.

Senator Abdnor. And the committee makes a determination as to which one of the workshops qualify to participate in this?

Mr. Cook. This is done on the recommendation of the central nonprofit agency. One agency represents the blind; the other the severely handicapped.

They submit a proposal which outlines the item being considered, the proposed price, the impact, and how many jobs it would create. The committee makes the determination.

Senator Abdnor. How many years has the committee been functioning?

Mr. Fletcher. The original committee was established in 1938. The present committee was established in 1971 when the act was amended to include the other severely handicapped. The present committee has been in existence for 13 years.

To expand on the membership, there are 11 members of the committee who represent various agencies and departments of the Government and there are four private citizen members. All of the members are appointed by the President. Two of the private citizen members represent the blind and two the other severely handicapped.

Senator Abdnor. Well, we certainly thank you gentlemen. As I said, your budget is not so large but what we can easily scrutinize it and we are happy to hear that you can live with it and we appreciate your attendance here today. Thank you.

Mr. Cook. Thank you very much.

Senator Abdnor. If we have any questions, we will certainly not hesitate writing to you. Thank you.

Mr. Cook. Thank you.

FEDERAL ELECTION COMMISSION

STATEMENT OF JOHN W. McGARRY, CHAIRMAN, FINANCE COMMITTEE

ACCOMPANIED BY:
JOAN D. AIKENS, VICE CHAIRMAN, FINANCE COMMITTEE
LEE ANN ELLIOTT, CHAIRMAN OF THE COMMISSION
JOHN C. SURINA, STAFF DIRECTOR
CHARLES N. STEELE, GENERAL COUNSEL

INTRODUCTION OF ASSOCIATES

Senator ABDNOR. Our next witness will be John McGarry, Chairman of the Finance Committee for the Federal Election Commission, who is going to testify on behalf of the FEC, and with him are the commissioners, Joan Aikens and Lee Ann Elliott, Charles Steele, General Counsel. Anyone else that I am leaving out? John Surina, who is Staff Director. I am sorry. John is the one who keeps it all going.

So, we welcome you folks here. I do not know who is going to start off. John, are you?

Mr. McGARRY. Yes; thank you, Mr. Chairman. It is a pleasure to see you again. Our Chairman, and I refer to her as Chairman because she was asked her preference at a public meeting where I shared a platform with her. The toast master was a little confused and wanted to know whether she was to be called chairperson or chairwoman. She said, "No, the statute provides Chairman and that is what I am." So, Lee Ann Elliott, Mr. Chairman.

Mrs. ELLIOTT. Mr. Chairman, I am privileged to serve as Chairman of the Federal Election Commission during 1984.

We welcome this opportunity to appear before you to explain our fiscal year 1985 budget request. In preparing this testimony, we have taken our cue from congressional good advice, and explain what our problems are so that you can help us address them.

Our presentation will be made by the Chairman of our Finance Committee, Commissioner John Warren McGarry and Vice Chairman of the Finance Committee, Joan D. Aikens.

Before Commissioner McGarry begins our testimony, I would like to make just one point. The budget you will hear about is not—I emphasize not—a maximum performance budget. It does not address all of the functions the Commission feels it should be undertaking. The budget testimony you will hear about covers a full performance budget. That is, it continues our basic program and adds only those critical things that are unique to our fiscal 1985 needs.

We have made a great deal of progress during the last year. You will hear about that in the testimony. With your support of our budget, I am confident we can continue our productive momentum during 1985.

PREPARED STATEMENT

Commissioner McGarry will now give the testimony.

Mr. McGarry. Thank you, Chairman Elliott.

Mr. Chairman, I accept your suggestion to summarize. I realize you do have a long list and other commitments and I will do exactly that.

[The statement follows:]

STATEMENT OF JOHN W. McGARRY

The Federal Election Commission welcomes the opportunity, Mr. Chairman, to testify today in support of its Fiscal Year 1985 budget request of $13,648,000. The Commission believes that its request is fully justified.

-- Fiscal Year 1985 falls in the middle of the presidential election period that represents the Commission's busiest time. We have special, added responsibilities during this period. In administering the Presidential public funding program, we must first certify payments, then audit all recipients of public funds. These tasks are over and above those pertaining to other 1984 Federal elections. The volatile growth in campaign spending, over which the Commission has no control, places an ever-increasing burden on our limited resources.

-- We will incur an unavoidable expense in 1985 to correct our long-standing facilities problem. Fundamental maintenance on the space we now occupy has been deferred to a point where it is not only inefficient, but unsafe. The lease on this privately-owned building expires at the end of February, 1985, making action on our part mandatory. Of course, any funds provided for one-time expenses but not used would be returned to the Treasury. In short, the Commission has no choice or control over this matter. We must relocate. While our request includes $850,000 for this purpose, the additional cost in 1985 will actually be closer to $1.2 million.

-- Past budget cuts have forced the Commission to eliminate basic programs. The Commission's staff level is nearly 20 percent below what it was four years ago. We no longer enter individual contributions of less than $500 into our computerized data base, even though all contributors of more than $200 must be identified in reports. Our request includes funds to resume this. Substantial additional money will be needed in 1985 just to support the current level of data processing activity. Largely because of the increased volume of campaign finance, our computer system is at peak utilization right now. The Commission's five-year computer contract expires in 1985. We have no control over the fact that it must be renegotiated at that time.

The Commission's budget request was first submitted concurrently to Congress and the Administration on September 1, 1983. At that time, the Commission began a dialogue with the staff of the Office of Management and Budget. Dr. John Cogan, Associate Director of OMB, visited the Commission to discuss our budgetary dilemmas, including our pressing need for alternative facilities and, thus, an increased budget for FY 1985. Dr. Cogan seemed sympathetic to our needs.

However, in November 1983, the Commission learned that the President's 1985 Budget was going to recommend $10,230,000 for the Commission, a reduction of five percent from the $10,744,000 anticipated FY 1984 level: $10,649,000 approved to date, plus a $95,000 supplemental appropriation being sought to cover increased pay costs. Although we sought reconsideration of this action by OMB, we were not provided an opportunity to detail the merits of our request to policy-making officials.

The Administration's budget recommendation for the Federal Election Commission is inconsistent with our compelling need for alternative quarters, as well as our unique responsibilities in 1984 and 1985. We assume that in making it, the Administration actually intended to defer to Congress as to our justifiable needs.

Commission Space Requirements

As Commission witnesses have pointed out to this Committee in the past, the Commission has, since its inception, been quartered in an unsuitable facility. In recent years, intensive use by the public and staff and deferral of fundamental maintenance has rendered the physical plant even less satisfactory. A recent GSA study of the building clearly substantiates numerous safety hazards to employees and the increasing numbers of people from outside the Commission who use our facilities. The study, which has been provided to the Committee, shows that it would be much more expensive to renovate our present space than relocate. The Commission has studied the GSA report and has concluded that we are compelled to move no later than February, 1985.

The Commission's budget request includes $850,000 to be exclusively earmarked for this move. The GSA study indicates that the Commission's acutal 1985 costs will be closer to $1.2 million. We have shown relocation costs as a separate line item to make it clear that any unobligated balance committed to capital improvements will be refunded to the Treasury and not be diverted for programmatic purposes.

FY 1985 Presidential Election Responsibilities

Fiscal Year 1985 falls in the middle of the two-year presidential election period that represents the busiest time for the Commission. As of March 1, 173 individuals had filed statements with the Commission indicating that they are candidates for President. Most will not request or qualify for matching funds. However, their registration imposes upon the Commission requirements to process all financial reports and statements which are filed and to monitor each candidate's compliance with the law.

By far, the greatest added responsibility the Commission faces in this election cycle revolves around the Presidential primary and general elections. The first step is assuring the proper disbursement of money to candidates who qualify for payments from the Presidential Election Campaign Fund. Thus far in Fiscal Year 1984, we have certified to the Treasury Department $12.3 million in matching payments to eight candidates for the Presidential primaries. Each candidate can theoretically receive up to $10.1 million in primary matching funds. The number of matchable contributions has increased in each Presidential election. Clearly, candidates are placing a greater emphasis on fundraising, resulting in a larger volume of submissions that must be reviewed by the Commission.

Another $12,120,000 has been certified for the two major political parties' nominating conventions. Each major party nominee will be entitled to $40.4 million in public funds for his general election campaign. There is also a possibility that a third party candidate could become eligible for both convention and general election payments.

This activity places a tremendous strain on our resources. All candidates who accept public funding must agree to a mandatory audit. This year, virtually our entire audit staff is devoted to the task of auditing all publicly funded campaigns. Every dollar of public money must be accounted for. Close to $140 million in public funds may be distributed in connection with the presidential elections. This represents a major undertaking, beginning in 1984 and continuing well into 1985.

Election Spending and FEC Workload

The explosive growth in campaign spending is demonstrated in the chart and table which follow. As the Committee will note, spending in both the 1976 and 1978 Federal elections approximated $360 million, even though there was no presidential spending in the latter election. This growth pattern continued with respect to the 1980 and 1982 elections, except that the amount jumped to $790 million. If this trend continues, we project that spending for the 1984 election will top $1 billion at the Federal level.*

Commission responsibilities with respect to the presidential election are above and beyond those which relate to other Federal elections. In line with this explosive growth, there is a corresponding increase in the volume of reports required to be filed. In FY 1984 and FY 1985, we expect that more than 52,000 reports and statements will be filed by as many as 2,300 House and Senate candidates, 4,000 political action committees, 700 political party committees, and 500 other entities. All documents must be promptly placed on the public record, information accurately entered into our computerized data base, reports carefully reviewed, and action taken to assure compliance with the law. We project that 25,000 people will visit the Commission's Public Records Office in 1985 to examine some of the 400,000 pages of reports and statements that we will make public in the course of the year. Our Information Division staff will respond to 60,000 phone requests and distribute 10,000 packets of published material to requestors. Our budget includes funds to code and enter more than 500,000 itemized transactions into our computerized data base.

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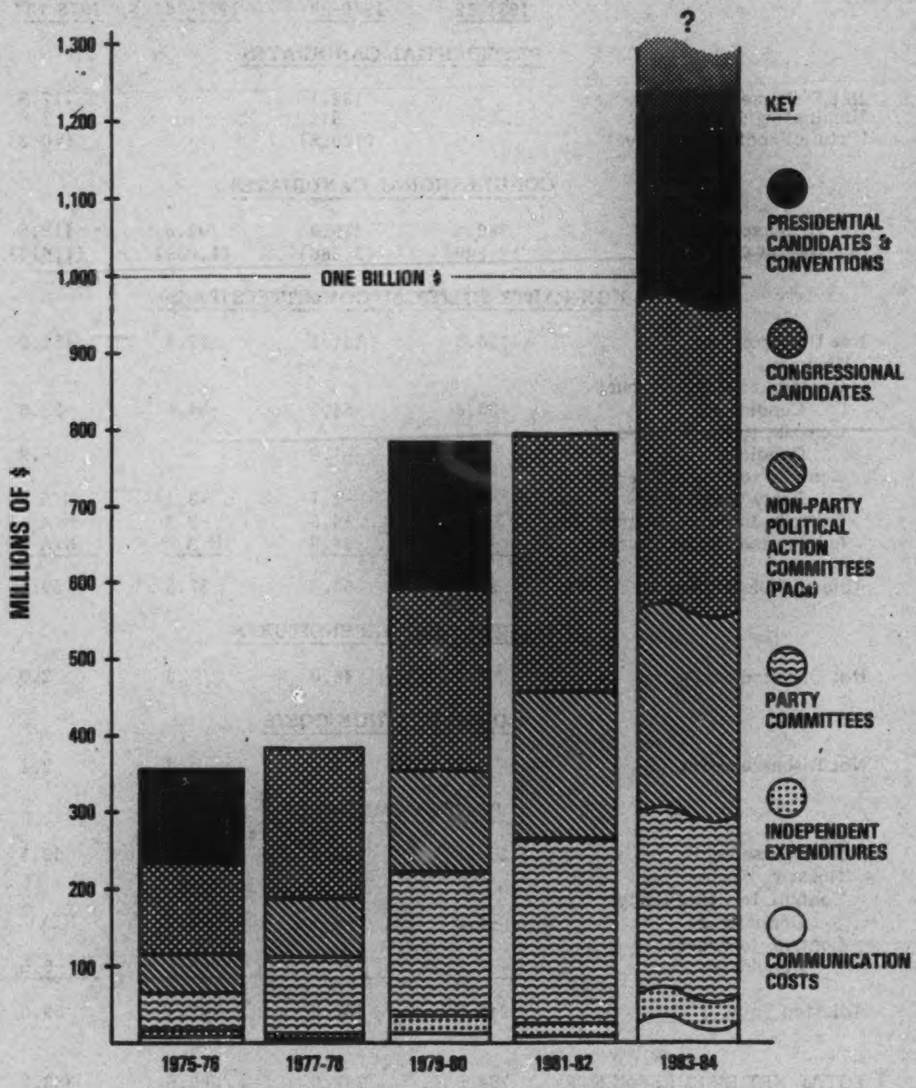
*/ Election cycle totals are for net disbursements, prior to adjustment for items included in more than one category.

DISBURSEMENTS IN FEDERAL ELECTION CYCLES



Election cycle totals are for net disbursements, prior to adjustment for items included in more than one category. 1975-76 estimate is derived from a variety of sources and may not precisely compare to data for other years.

DISBURSEMENTS IN FEDERAL ELECTION CYCLES
(In Millions of Dollars)

	1981-82	1979-80	1977-78	1975-76*
PRESIDENTIAL CANDIDATES				
Net Disbursements	-	192.1	-	117.6
Nominating Conventions	-	9.1	-	3.6
(Public Funding for Above)	-	(100.6)	-	(70.8)
CONGRESSIONAL CANDIDATES				
Net Disbursements	342.4	239.0	194.8	115.5
(Number of Candidates)	(2,240)	(2,288)	(1,909)	(1,614)
NON-PARTY POLITICAL COMMITTEES (PACs)				
Net Disbursements	190.2	131.1	77.4	52.9
Minus: #				
Contrib. to Congressional Candidates	-83.6	-55.2	-34.1	-22.5
Contrib. to Presidential Candidates	-	-1.8	-	-.8
Contrib. to Other Non-Party Committees	-3.7	-2.1	-3.1	N/A
Contrib. to Party Committees	-6.0	-4.6	-2.7	N/A
Independent Expenditures	-5.2	-14.0	N/A	N/A
Adjusted Disbursements	91.7	53.4	37.5	29.6
INDEPENDENT EXPENDITURES				
Net Disbursements	5.7	16.0	.3	2.0
COMMUNICATION COSTS				
Net Disbursements	2.2	4.0	.3	2.1
PARTY COMMITTEES				
Net Disbursements	254.1	196.7	112.8	59.5
Minus: #				
Contrib. to Other Party Committees	-4.0	-8.1	-4.0	N/A
Contrib. to Federal Candidates	-7.2	-6.0	-6.4	-6.5
Adjusted Total	242.9	182.6	102.4	53.0
TOTAL NET DISBURSEMENTS	794.6	788.0	385.6	353.2
TOTAL ADJUSTED DISBURSEMENTS	684.9	696.2	335.3	323.4

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* - Data from 1975-76 is derived from a variety of sources and represents estimates not precisely comparable with other elction-cycle information.

# - Adjusted Disbursements calculated by subtracting items that would otherwise have been doubled counted.

Despite the ever-increasing workload, we can document impressive increases in staff productivity. As the number of transactions reviewed, coded and entered into the computerized data base has gone up, we have seen our costs per transaction decrease markedly. This is both a reflection of improved procedures which have been implemented and the growing professionalism of Commission staff as the Agency has matured. The Commission will, of course, retain those procedures and policies which successfully yielded operational efficiencies without material harm to essential activities.

Computer Contract

The Commission's five-year automated data processing contract with a private vendor will expire in 1985. The computer is used to track documents, prepare statutorily-mandated indices, maintain the details of financial transactions, and summarize the activity of political committees. A measure of the activity we expect in 1985 is the fact that approximately 60,000 requests for computer-generated indices were processed in the first six months of 1983. Under the current ADP contract, the Commission also performs complete payroll, personnel, administrative support, and management information functions.

In light of the explosion in the amount of information with which we must deal, it is essential that we obtain the most current and efficient technology available. Under a contract with the Department of the Air Force, some of the Government's top ADP specialists are helping the Commission assess its ADP needs over the next several years, evaluate technology to meet those needs and determine the costs of that technology.

We anticipate that our computer costs in 1985 will be approximately $1 million. The $295,000 included in the 1985 budget represents our projection of the additional resources required in 1985, given the increased level of activity we anticipate. The Commission has initiated a study of the feasibility of direct access to FEC computerized disclosure data by outside organizations. As a pilot project, direct access will be provided on a trial basis to a few state election offices, the Clerk of the House of Representatives and the Secretary of the Senate.

Restoration of Activities

Many of the Commission's past efforts to reduce cost have contributed to a more efficient program; others, however, have not. Our budget request includes funds to restore activities which were previously reduced or discontinued. Some of these are highlighted below.

In 1980, because of budget restrictions, the decision was made to discontinue entering into our computerized data base individual campaign contributions under $500. The statute, at 2 U.S.C. §432(c)(3), specifically requires that the identity of individuals who contribute over $200 in a calendar year be indicated on disclosure reports. We estimate the cost of resuming capture of this data to be approximately $382,000. One-half of this cost ($191,000) represents a one-time expense in 1985 to enter contributions listed on reportes filed in 1984.

The Commission's audit staff, including auditors detailed from the General Accounting Office, will be almost exclusively involved in the Presidential Public Funding Program early in 1985. Audits of other types of committees are normally deferred until later. Congressional campaign audits must be initiated within six months of the election. In order to maintain a credible audit capability to begin the audits of congressional campaign committees, party committees and political action committees that were deferred, an additional four audit positions are needed in 1985. Even with these additional resources, our audit staff will be only two-thirds of that maintained in 1980-81.

The Commission's legal staff also need to be able to respond to demands with greater accuracy and timeliness. Additional positions are being sought for the General Counsel's office in part to respond to the increased legal work generated by increases in the number of political committees filing reports and number of transactions reported. We are also seeking resources to undertake a systematic review of our regulations.

The National Clearinghouse on Election Administration has completed the study of the need for voluntary voting systems standards mandated by the 1980 amendments to the law. The process of carrying this study to its logical conclusion by actual development of the standards will be started this year. The funds sought for this project, as well as for restoration of other Clearinghouse research programs, will directly benefit those state and local election officials who are essential to proper administration of Federal elections.

Highlights of the Past Year

In prior fiscal years, the Commission was plagued by budgetary uncertainty which prevented any long-range planning. Because our oversight and appropriations committees recognized the growing needs of the Commission and provided adequate funds early in the current fiscal year, some long-standing deficiencies are being addressed.

-- Early in this fiscal year, the Commission held the last three of five very successful regional conferences devoted to campaign finance and election administration issues. Commissioners and staff provided hands-on assistance to more than 2,000 participants. The responses received from the participants were uniformly positive.

-- We have published a series of practical brochures designed to help the public and political committees understand and comply with the law, as well as tc increase the productivity of our information program. Samples of these brochures and other materials provided free of charge by the Commission are shown on the exhibit which is on display in the hearing room.

-- We have now replaced all of the microfilm reader-printers in our Public Disclosure Division. This action was taken just in time for the 1983-84 election cycle, since we could no longer maintain the old machines for want of spare parts and lack of a service contract.

-- Telephone installers are currently at the Commission replacing some of our archaic communications equipment. The new system, though still not as modern as we would like, will save time and thus increase productivity. This equipment is capable of being transferred to a new facility.

-- Final regulations have been promulgated by the Commission relating to Presidential primary and general election campaigns, a candidate's use of property in which his or her spouse has an interest, joint fundraising and collecting agents, trade association solicitation authorization, and communications by corporations and labor organizations.

All of this progress has been made possible by the understanding and assistance of this Committee. However, we will need your continued help to assure that this progress continues.

Full versus Maximum Performance Funding

The Commission's $13.648 million budget request is $2.9 million over the anticipated $10.744 million in 1984 funding. Almost 40 percent of the increase, or $1.1 million, represents spending to meet special, one-time only costs. Meager as the absolute increase seems from a government-wide perspective, it represents a significant increase in the FEC's resource requirements which would greatly enhance the ability of the Agency to fulfill its statutory mandate.

Our budget request reflects the Commission's best judgment for fiscally responsible, full performance funding. It does not seek the funding needed if we are to function at a maximum level, as substantially higher increases would be required to perform at such maximum level. Thus, we have omitted from our request the funds which would be required if the Commission were to process the financial reports it receives in the most expeditious manner technically possible, or if the law were to be fully enforced in all respects. We always strive to use our resources in the most cost-effective manner, and performance at this higher level does not seem prudent in today's economy.

Conclusion

The Commission is proud, Mr. Chairman, of its continually improving record of enhancing the electoral process in the United States. Our disclosure program accurately informs the public of the sources and uses of campaign funds. Our compliance program reinforces the disclosure requirements and seeks to remedy violations of the law.

Almost as important as the material benefit to the electoral process which flows from our efforts is the contribution made by a credible FEC to enhancing the general public's faith in the integrity of the American political system. Both the Congress and the courts have cited this latter point as a significant rationale for an effective and visible Federal Election Commission.

The Commission urges this Committee's approval of the full amount being sought for fiscal year 1985 to continue the progress made to date.

Thank you, Mr. Chairman. We would now be pleased to respond to any questions the Committee may have.

BUDGET REQUEST

Mr. McGARRY. Permit me, if I may, Mr. Chairman, to introduce—I think you are acquainted with Commissioner Aikens, who is the Vice Chairman of the Finance Committee, our Staff Director, John Surina, and our General Counsel, Charles Steele. We also have Commissioners Reiche and McDonald who are here in the audience to further assist us.

Mr. Chairman, I welcome the opportunity to present to you and your committee the fiscal year 1985 budget request for the Federal Election Commission in the amount of $13,648,000.

Before giving you the highlights—that is, the essential components of that request—I would like to make just a couple of observations which I believe will facilitate a better understanding of our request.

SOARING CAMPAIGN SPENDING AND COMMISSION WORKLOAD

Mr. Chairman, no one disputes campaign spending is soaring. Total spending in the House and the Senate races jumped a whalloping 43 percent from the 1980 to the 1982 election. The current, ongoing campaign for President of the United States, is a vivid example of the explosive growth in spending.

Last Wednesday morning, the morning after the New Hampshire primary, the media was announcing with astonishment that the Democratic candidates had spent over $2 million. With less than 100,000 voting, estimated to be around 84,000 or 85,000, that is well over $20 a vote.

That galloping growth means campaign spending will go over $1 billion in the Presidential election year 1984. The most important point it is imperative that I make to you and to your committee on behalf of the Commission this afternoon is this: that staggering figure is going to have a massive impact on every single division of the Federal Election Commission.

We are going to have many, many more reports to process and review and there will be a huge jump in the number of transactions that are reported. All of that has a domino effect that places an added burden on the entire Commission, including but not limited to the Public Records Office, the Reports Analysis Division, and our Audit Division.

As for automated data processing, our computer capability has reached its absolute limit. There is nowhere else to go. A vitally important consideration is that fiscal year 1985 involves a Presidential election campaign. We expect to certify about $140 million in public funding for that election.

As of the close of business Friday, Mr. Chairman, 175 individuals had filed with the Commission for the office of President.

The certification of public funds for those who qualify is a very time consuming process for the Commission. Certification is important, but there are many, many other steps in the public financing picture which require extensive manpower and resources. For example, those Presidential candidates who accept public funding agree in writing to cooperate with the Commission on the audits required by law. Those are very full, complete, and comprehensive audits.

The Audit Division is devoted almost exclusively to that process. Those Presidential audits, Mr. Chairman, generate a wide variety of complex legal issues. At this time, the Office of General Counsel is representing the Commission in six separate and distinct court actions still pending from the 1980 election.

The Commission has no control over the litigation the Presidential committees have every right to avail themselves of under the law. This is just one example of the many time consuming and expensive duties which the Commission takes on in a Presidential year.

IMPACT OF BUDGET REDUCTIONS

All of this stretches every facet and aspect of the Federal Election Commission to its absolute limit, machines as well as people. You may ask how the Commission has been able to survive in the face of budget cuts, despite increasing demand. Three reasons, Mr. Chairman: No. 1, we have dramatically increased our productivity. An example is in 1980 it cost us $23 to review a report. Today, $10. In that same period of time, the overall number of reports reviewed increased 100 percent.

We reduced our staff. Since 1980 we have cut our staffing level from 282 to 224. Unfortunately, Mr. Chairman, I regret to say that past budget cuts have forced the elimination of basic programs. Just a quick example of that: the law requires that individual contributions over $200 be itemized on reports; that is, the name and address of the contributor, the date and amount of the contribution, the contributor's occupation, and the name of the contributor's employer.

Despite that requirement in the law, because of past budget cuts, we do not enter into our data base individual contributions under $500.

And on another point, the General Accounting Office wrote to us last year and indicated they were going to investigate whether or not we were monitoring the $25,000 annual ceiling on contributuons by an individual. We told them to forget it. We do not have the money. We cannot do it. We cannot afford it.

Now, Mr. Chairman, I could go on, but I will close out and give you the four essential components in our request. To begin with, if we were to retain the status quo, to change nothing, simply continue our 1984 program, our base figure would be $11,289,000.

NEED TO RELOCATE COMMISSION OFFICES

The biggest item in our budget is the relocation of the Commission. The current 10 year lease at our present location expires early in fiscal year 1985. The General Services Administration recommended a consultant. We paid $28,000 for a study, which we got just the other day, Mr. Chairman. A copy has been provided to the committee.

Now, when your lease expires, you normally have three options. No. 1, you can stay where you are, make the best deal you can and go on as is. Incidentally, we are now paying $12 a square foot, and our rental bill is about $550,000, give or take a couple of dollars. We are in an area where the current rent is about $25 a square foot.

In any event, the second option is renovate, and the third option would be relocate. Well, that 45 page study, Mr. Chairman, concludes that we do not have three options. We have one option and that is to relocate. The main reason for that is there are very serious health, fire, and safety defects.

Let me just give you two quick examples of that. There is no sprinkler system of any description anywhere in that 13 story building. Another item is that the two existing stairwells are contained in the same shaft, and they cross one another in a scissor fashion. That is a clear cut violation of just about any fire code. There is no alternate escape route.

Those stairwells, the only escape routes, which go from the roof down to the street level should be on opposite ends of the building. There is no other alternative. So it is perilous; it is dangerous. There are many other defects and I regret to say that the conclusion is very clear. We have nowhere to go but to relocate.

COMPUTER CONTRACT AND OTHER NEEDS

Another item is the 5-year computer contract which expires early in fiscal year 1985. In order to continue doing our job, in light of the explosive growth in election activity, we need $295,000 because the current computer capacity is at its absolute peak. We also need $382,000 to enter individual contributions under $500, which I mentioned earlier.

On this score, $191,000 of that, Mr. Chairman, would be a one-time expense because we would recapture those individual contributions under $500 for the first part of the 1984–85 election cycle. It just would not make any sense to go into it without getting it from the beginning of the election cycle.

Mr. Chairman, I am going to close out. I merely want to say that this request is not the usual annual request for funds. We have very unusual problems here. The three most serious ones are: we are the forced to relocate—we absolutely have no alternative and it is a perilous situation because bear in mind the general public uses our facilities more and more; second, the 5-year computer contract expires and the name of the game under the Federal Election Campaign Act—the purpose, the thrust, the objective—is disclosure. I dare say the whole disclosure system would be in jeopardy if we do not get that money.

Last, and certainly not least, Mr. Chairman, fiscal year 1985 involves a Presidential election year. The Commission's role in that process is critical to the stability and success of our form of Government.

Thank you very much, Mr. Chairman.

INCREASES IN 1985 OVER 1984 BASE LEVEL

Senator ABDNOR. Thank you. For what you are doing now you say you have to have $13 million?

Mr. MCGARRY. $13,648,000, yes, sir.

Senator ABDNOR. What does that do? Does that keep you at your present staff. What do we have for location now, nothing in the budget? I did not get a chance to go through this carefully. The $10.2 million does not allow you anything for relocating?

Mr. McGARRY. No; there is nothing for relocation, nothing at all.

Senator ABDNOR. Nothing.

Mr. McGARRY. Yes.

Senator ABDNOR. Do you expect this new computer contract to be a great deal more than what you have been paying each year for the past 5 years?

Mr. McGARRY. We anticipate that it will be an additional $295,000. That is the amount that we have in this request.

Mr. Chairman, I would like to point out that our base figure is $11,289,000. The figure we got from the Congress for 1984 was $10,649,000. The pay supplemental would be $95,000, which brings us to $10,744,000. But the base figure, we respectfully submit, not changing anything and just going on with the 1984 programs, factoring in a 5-percent cost-of-living adjustment, would be $11,289,000. We say that is the base, Mr. Chairman.

COMMISSION AUDIT ACTIVITIES

Senator ABDNOR. Well, no one can deny that the volume has certainly increased. Briefly describe your audit activities. What does it consist of?

Mr. McGARRY. Well, as I indicated in the testimony, the Audit Division, because of our funding situation and because it is a Presidential election year, is devoted almost exclusively to the Presidential public funding process. That is a very time consuming and expensive process. Mr. Chairman, the Congress provided in section 438(b) of the act the program for auditing generally. We follow that. We have set forth the standards directed to us by that particular section of the statute.

It is all spelled out in the law. The second basis for auditing is with respect to compliance, if something comes up in connection with investigation of a possible violation. The third of the three main categories of the audit process at the Commission is the public funding. The law requires that publicly funded candidates be audited.

Senator ABDNOR. You do get that done? I know you said you did not do accounts under $500. That is just one part of it. The auditing of the candidates, you keep up with that, do you?

Mr. McGARRY. We have all we can do—that is why the audit staff and whatever money we have for audit is devoted almost exclusively to the auditing of the public money.

PRESIDENTIAL PUBLIC FUNDING

Senator ABDNOR. How many of these people, 147 running for President?

Mr. McGARRY. One hundred seventy-five at the close of business Friday.

Senator ABDNOR. How many do you have to give funds to, matching funds?

Mr. McGarry. Well, we have given public funding thus far, not counting the President, to eight. The President, I believe, is in the process of applying. We expect the number to go to 10.

IMPACT OF OMB RECOMMENDATION

Senator Abdnor. You requested 277.65 full-time employees. The pass back allows 236. How are you going to reconcile this? You requested 277, right?

Mr. McGarry. Yes, Mr. Chairman.

Senator Abdnor. OMB, I understand, is 236. What would you do if left with 236?

Mr. McGarry. Respectfully and very bluntly, Mr. Chairman, we just could not do our job with 236. It is a totally unrealistic number. Let me give you one example, just one quick one, Mr. Chairman, of the volume and the explosive growth in activity.

Comparing 1980 to 1984, the requests through the Public Records Office in 1980 for computerized indices averaged 1,000 a month. In the month of January 1984, we had over 17,000 requests. That is some idea of the explosion in the growth of activity.

Senator Abdnor. Do you expect that between now and the end of the election year it is going to be much greater than the previous year?

Mr. McGarry. There will be much greater activity and the increased burdens on the resources and manpower at the Commission.

Senator Abdnor. How fast do you come with the public disclosure requiring the FEC make reports available within 48 hours of filing?

Mr. McGarry. We meet that requirement. When a report is filed at the Commission, it has to be available in the Public Records Office, under the law, for public inspection and copying within 48 hours. We meet that deadline.

Senator Abdnor. You just have to neglect something else. That is one of your high priorities.

Mr. McGarry. That is one of the most fundamental priorities. I can assure you, Mr. Chairman, there are some days down in the Public Records Office in this Presidential year when it is standing room only. The candidates' representatives are crawling over one another.

Senator Abdnor. What do you have to do, make a decision which ones have the higher priority than others?

Mr. McGarry. Exactly. And these are extremely difficult decisions for us to make.

Senator Abdnor. Do you get criticized for doing one and not the other?

Mr. McGarry. Oh, severely, severely.

Senator Abdnor. Well, the auditing division begins the 1984 election cycle with less employees than you had in 1980; is that a fair statement?

Mr. McGarry. Absolutely right.

Senator Abdnor. Does this have much of an effect on your matching funds?

Mr. McGarry. It is a great strain on the Audit Division. Just one responsibility—the certification process—as I indicated is certainly very important and it is very time consuming.

We find that some of the candidates—and I would prefer not to mention any names—come in with average contributions of perhaps $20, $30, or $40. If that is the case when they come in for their initial threshold submission to get certification, there is an awful long list of items and documentation to go over.

Senator Abdnor. I understand some present their information in a better and clearer fashion than others.

Mr. McGarry. I can assure you of that.

Senator Abdnor. Do you have any say about that? Can you make somebody take it back and redo it?

Mr. McGarry. We do. Some of it is unmanageable and we are forced to send that back.

COMPLAINTS FILED WITH THE COMMISSION

Senator Abdnor. What about complaints? Are you getting more complaints today than you got in other years from outside? Is that growing as rapidly as some of the other activities in your office?

Mr. McGarry. I will defer to the General Counsel on the statistics and the comparison. Charles Steele could speak to that directly.

Mr. Steele. The complaints have increased somewhat, though not anything like the volume that Mr. McGarry talked about with regard to the basic filings. Of course, when we review that many more transactions, there is a greater volume of difficulties discovered in the ordinary course of the Commission's supervisory responsibilities. The complaints go up anyway in an election year, but that seems to have gotten to a point where it is not increasing at the same overall rate. It is a slower process.

Senator Abdnor. When you get those complaints, I think most of them are more or less for publicity purposes. How many do you really find that have a foundation or a good reason for the complaint?

Mr. Steele. We have some statistics on that. A surprisingly small number seem to be really frivolous. On the other hand, the Commission does not pursue complaints that have nothing in them. The number that turn into serious investigations, probable cause, conciliation agreements and court suits are down in the 25 percent range.

There are not very many that drop out right at the beginning, though we do get a fair number of ones that do not even comply with the act; but in the process of reviewing it, the Commission finds some that are not worth pursuing.

CAPITAL IMPROVEMENTS REQUEST

Senator Abdnor. Just a couple more questions. You requested $850,000 for capital improvements. What impact is that going to have if you do not receive it?

Mr. McGarry. Well, to begin with, we have put into our request a figure of $850,000, you are absolutely correct, Mr. Chairman.

However, this report, which we did not get until a couple of days ago, indicates the cost will probably be $1,200,000. Now, I should point out that that is a line item. Whatever is not used for the relocation goes back to the Treasury. So there is no way we could get a windfall out of it.

It is a separate and distinct item. I cannot overemphasize how critical the need is mainly because of the health, fire, and safety defects.

Senator Abdnor. Where do you have in mind? Are you looking at some locations?

Mr. McGarry. Yes; Commissioner Aikens, as you know, Mr. Chairman, has been with the Commission since it opened its doors in 1975. She has been intimately and directly associated with this problem.

And she is on the space committee dealing with this problem virtually day to day. Commissioner Aikens can speak to it directly.

Senator Abdnor. Are you working with the GSA on this?

Ms. Aikens. We have been working with the GSA, yes, Mr. Chairman, and we have not begun to look for space yet. We were waiting for the study first and then we will go through the next step with the GSA.

Senator Abdnor. How much time do you have?

Ms. Aikens. Pardon?

Senator Abdnor. How much time do you have?

Ms. Aikens. March of next year. Our lease runs out in March 1985. So we are moving on it fairly rapidly. We realize that is not much time to relocate an agency. Particularly through the GSA, it will take some time to get it done.

Senator Abdnor. So actually you are still in the talking stage. You really have not——

Ms. Aikens. Well, the report is pretty clear that we must go beyond the talking stage very quickly. The report points out that there is no way to renovate the building we are in to provide satisfactory facilities for us.

Senator Abdnor. Who did that report?

Ms. Aikens. It was done through the GSA with a consulting firm by the name of Cooper-Lecky. GSA advertised and they found a consultant for us. The consultant came in and interviewed the staff, looked around the facilities, talked to everyone, and saw what our mandate was under the statute.

Senator Abdnor. And the report principally tells us what you are looking for and what you need?

Ms. Aikens. It tells us where we are deficient in our current facilities and what we would need to look for.

Senator Abdnor. Do they go so far to say you do not have enough bodies and you are going to need more room because of that?

Ms. Aikens. We gave them the staffing levels and they said that in the place we are in we do not have enough room. One of the things they think is very necessary is a larger public records room. Our Public

Records Office is currently on the first floor and they feel it is not large enough to completely satisfy the public's desire for this information that we can provide.

They feel also that we need a larger hearing room for Commission open hearings which are attended by the public and the press. There are load bearing problems with our computer facilities and our library. There are floor weight problems that they recommend be corrected. And as Commissioner McGarry pointed out, there are the fire safety hazards. With this type of a stairwell, GSA's own safety requirements require a 6-foot corridor around the inner wall. We do not have that.

Senator ABDNOR. No one has ever complained about it?

Ms AIKENS. No; the GSA apparently did a study about 1½ or 2 years ago, but they never said anything to us about it until the consultant came out with its report.

DISCLOSURE RECORDS

Senator ABDNOR. How many years do you have to keep the records that you keep?

Ms. AIKENS. We keep hard copy 3 years. Then we put everything on microfilm and we have a storage facility at the Navy Yard so that we can retrieve everything eventually. We have everything on microfilm.

Senator ABDNOR. You would grow in a hurry if you did not.

Ms. AIKENS. We would have long outgrown our facilities if we did not, I am sure.

Senator ABDNOR. Well, I think we certainly got the message. I do not know if there are any quick solutions here. We are in a tight bind ourselves living with these budget things. I have been made aware of this even before you arrived. It is a very difficult budget. And obviously you do have friends who are concerned about your situation, too. So we are certainly going to give it close attention.

NATIONAL COUNCIL OF FARMER COOPERATIVES RULEMAKING PETITION

Before closing, there is one other item I would like to touch on. On December 29, 1982, the National Council of Farmer Cooperatives filed a petition with the Federal Election Commission asking for the institution of a rulemaking proceeding to correct an inequity in the FEC regulation which prevents a federated cooperative from soliciting PAC contributions from persons who are members of its affiliated cooperatives.

Individual farm patrons own their local cooperatives, which in turn own regional cooperatives that maintain PAC's. However, under your current regulation, these individual farmer patrons may not be solicited by their regional cooperative PAC's since their relationship with the regional is through an intervening cooperative entity as a part of the federated structure.

I believe Congress intended that membership organizations such as cooperatives be permitted to solicit their members and that individuals in a federated membership organization should be considered members for the purpose of communication and solicitation.

Indeed, the FEC has adopted regulations that permit indirect union members to be solicited by a federated union, even though the individual's direct membership is at the local union level and not at the federated union level.

I just want to ask the Commission to take a look at this situation. That is all. It has been brought to our attention. We would like to get your reaction to that. It does not have to be right now.

Mr. **McGarry**. We are vividly aware of it and we certainly will take your request seriously, Mr. Chairman. Lee Ann Elliott, the Chairman, has some comments on it.

Mrs. **Elliott**. We have, within the last month, received a report from our General Counsel's Office outlining issues that will be looked into. That was on the list. So I can tell you that it will have our attention this year.

Senator **Abdnor**. I am glad to hear that. Well, we thank you and wish we could take more time, but we have to keep moving.

Mr. **McGarry**. Thank you very much, Mr. Chairman.

Mrs. **Elliott**. We would like you to come down and see our facilities.

Senator **Abdnor**. Maybe I will.

U.S. MERIT SYSTEMS PROTECTION BOARD

STATEMENT OF HERBERT E. ELLINGWOOD, CHAIRMAN

ACCOMPANIED BY RICHARD REDENIUS, MANAGING DIRECTOR

PREPARED STATEMENT

Senator ABDNOR. We are happy to have with us Mr. Herbert Ellingwood, Chairman of the U.S. Merit Systems Protection Board; also, Richard Redenius, Managing Director. Gentlemen, it is a pleasure to have you with us. I guess you heard my opening remarks, that we would be happy to put your entire statements in the record. If you would care to summarize, we would appreciate it very much.

Mr. ELLINGWOOD. Thank you, Mr. Chairman. I would like to submit my written testimony for the record.

Senator ABDNOR. Fine.

[The statement follows:]

STATEMENT OF HERBERT E. ELLINGWOOD

It is a pleasure to appear before you today to present the annual appropriations request of the Merit Systems Protection Board.

I am delighted to report to the Subcommittee that the Board expects to enjoy a relatively normal workyear during fiscal year 1985 for the first time.

We are happy with our accomplishments in processing approximately 11,125 ATC cases at our regional level. That effort, when combined with our typical caseload, represented an increase of over 135% of a normal appeal case level. Further, we processed approximately 1500 appeals covering over 5400 appellants at Board headquarters.

But that only tells part of the story.

In addition, during the last year, the Board adjudicated over 5,500 non-ATC appeals backlogged which were pending due to the enormity of the ATC caseload.

Our 11 regional offices have returned to normal processing and are adjudicating all appeals in accordance with our 120-day policy. Furthermore, the backlog at Headquarters has been drastically reduced and will return to normal processing before FY '85.

We have achieved a great deal during this year and have profited from the experience in ways that will further enhance our ability to process cases in a cost-effective way consistent with due process protections. During this period we implemented efficiency measures which resulted in reduced travel cost, expedited case processing and new cost effective hearing transcription techniques. These insights and skills will contribute to a more streamlined and cost effective methodology for managing Board resources.

Thus, the need for temporary augmentations of both appropriations and employee ceilings, provided by this Subcommittee, have now been removed.

Therefore, our appropriations request reflects a return to projected normal operations across the entire range of the Board's activities and, if approved, will provide a level of funding necessary to continue processing cases fairly and expeditiously.

I should add, however, that our projections are based on yearly patterns of appeals and do not project variances which may occur based on budget realities and reorganizations across the Federal Government. Personnel adjustments caused by compressed budgets may result in a dramatic increase in the Board's appellate caseload.

Fiscal Year 1985 Request

The Board, with OMB's support, is requesting a total of $20.477 million and 380 workyears for our FY'85 appropriations. This funding level, while $582,000 higher than last year, actually represents a decrease of approximately $155,000 in controllable operational expenses.

The increase is caused by an additional $679,000 in Congressionally approved pay raises and SLUC charges.

The FTE level represents a decline of 70 from a high of 450 during our peak ATC adjudication period.

The actual decline in staff and funding is possible due to improved management techniques and the elimination of those temporary employees hired to handle the ATC and backlog cases.

The appropriations level also represents the Board's anticipation of increased cost-effective practices brought about through a series of enhanced management controls. In March 1983 the Board began a pilot appeals program in select regional offices which was designed to adjudicate routine, non-precedential appeals in half the time, or 60 days, from the formal process. This voluntary project, now entitled voluntary expedited appeals, has the potential of an expedited and cost effective alternative procedure. The project has been recently modified to enhance interest in electing its use. By reducing case processing time and requiring the parties to file a joint appeal record, we anticipate that this alternative procedure will prove to be an asset in future case processing.

Mr. Chairman, I would like to describe the way in which the OMB supported budget levels would be divided among the Board's various functions during FY'85.

Our adjudication process starts with the filing of an appeal at the appropriate regional office which results in the issuance of an initial decision. This activity will receive nearly $7.8 million or 38% of the Board's total budget, reflecting an FTE level of 173. This request represents an increase of $22,000 from FY'84 which is intended to absorb salary increases.

The next stage of the adjudication takes place primarily in the Office of Appeals Counsel. This office is responsible for analyzing petitions for review which may be filed from regional office decisions, drafting the necessary memoranda or opinions, and recommending decisions to the Board. This activity will receive nearly $2.5 million or 12% of the Board's budget representing 52 FTE for FY'85. The decrease of $129,000 and two FTE is the result of cost-saving measures establishing higher production standards and providing for concise decision writing.

The Office of General Counsel will receive nearly $1.6 million or approximately 7% of the Board's budget representing 31 FTE. Our General Counsel conducts or monitors all Board litigation and provides legal advice to the Board members and office directors.

This funding level represents a decrease of $38,000 and four FTE. The reduction is possible due to enhanced case management resulting from the adjudication of precedential decisions and the establishment of the U.S. Court of Appeals for the Federal Circuit as the primary judicial appellate forum. However, OGC's litigation authority has increased due to a recent decision by the Court of Appeals which held that the Board is the proper respondent in cases dealing with jurisdiction and appellate procedures. In addition, this office's administrative responsibilities include the filing of official case records and indices as well as monitoring the 3,000 ATC appeals filed with that court.

The Case Decisions Program Review area will receive almost $7.5 million or 36% of our budget representing 104 FTE. These activities provide administrative and staff support for the Board headquarters and regional operations. This amount represents an increase of $879,000 in mandatory increases such as pay raises, and GSA, GPO and Postal Service charges. However, program growth in this area is expected to be offset by an estimated $205,000 in savings based on a more cost effective travel policy and enhanced hearing management controls. The net increase of $674,000 is necessary to maintain effective managerial, administrative and appeal-related research activities.

The Office of Merit Systems Review and Studies will receive nearly $1.25 million or 6% of the budget representing 20 FTE. The statutory functions of this office are to conduct special studies of personnel issues and to review regulations as proposed by the Office of Personnel Management. An increase of $53,000 represents the funding level required to provide additional survey evaluation of the Senior Executive Service (SES).

It has been a challenge to have presided over the Board during this extraordinary period. I am proud of our employees and, with your help, look forward to a year of significant achievements.

AIR TRAFFIC CONTROLLER CASES

Mr. ELLINGWOOD. And I am here to bring you good news today. This is the first relatively normal year at the Merit Systems Protection Board since its creation, and that is due to your assistance last year of a supplemental appropriation which allowed us to handle all the air traffic controller cases.

As you recall, we had approximately 11,125 air traffic controller cases placed upon our workload, which alone is an increase of 35 percent over a normal caseload. We asked for some help and you gave it to us. The burden was on us and we produced. By the first of the fiscal year, that is, October 1, we had completed the processing of all the air traffic controller cases at the regional level.

Even before finishing those ATC cases we reached a normal workload at the regional level. There was an additional $600,000 that you gave us to be sure that we had the backlog decreased to a normal workload, and we did that. So, we are very happy. The caseload at all of the regional offices is now at a normal level, not only as far as raw numbers of cases are concerned, but also the timeframe within which they are being decided. As you know, we have a self-imposed 120-day deadline for processing appeals at the regional level, and in every region you will find that we are in compliance with that objective.

In addition, there were more than 1,500 air traffic controller petitions at the headquarters, representing over 5,400 different air traffic controllers. These too, have now been processed. We also processed some 5,500 nonair traffic controller cases at the Board level, which were backlogged because of the increase in the workload due to ATC appeals.

All of our office, including the Board, will have returned to normal operations before the end of this year. It has been very difficult at the Board level to process all those cases, as every Board member has to read and decide all of the cases but we are scheduled to complete them by the end of fiscal year 1984. In fact we are nearly back to normal now and will certainly be current well before the end of the year, which means that we have no longer the need for additional appropriations this year. We are actually asking for $155,000 less in controllable costs. And the only increase is due to SLUC or personnel such as the cost-of-living increases the Congress has approved.

So we bring you a good report, and we would be happy to answer any questions.

Senator ABDNOR. Mr. Ellingwood, that is a very glowing report. That is kind of new for us and you are going to be a hard act for somebody else to follow, I am sure of that. I certainly want to commend you.

Does that mean that you are getting $643,000 less or has that been built into this year's budget?

Mr. ELLINGWOOD. You gave us $643,000 more last year. We are not asking for that now.

Senator ABDNOR. So that is out of the picture, the air traffic controller thing is settled and you are right on top of all the other caseload increases.

Mr. ELLINGWOOD. That is true.

Senator ABDNOR. You do not have much of a backlog to speak of?

Mr ELLINGTON. No; we are going to be in good shape.

Senator ABDNOR. Well, that is wonderful. I cannot add to it. We love to hear that and we thank you for coming in. We just hate to let you go without one question.

Mr. ELLINGWOOD. Before you ask that question, just let me, on behalf of the Board and on behalf of the system, thank you for seeing the need that we had for that augmentation last year. I think very often people come to the Congress asking for augmentations and you wonder whether or not they work; this one worked. And I think everybody is happy with it.

Senator ABDNOR. Well, we are happy to have you prove us right.

However, could you briefly review the appeals arbitration and is it working well?

Mr. ELLINGWOOD. This is a new system, Mr. Chairman. We are going to rename it because it is really not arbitration. It is an expedited appeals process which cuts the time in half. This means that both parties get together. There are no ex parte contacts beforehand. Our people work with them and they have a chance to submit a joint record before one of our hearing officers in the regions.

We promise to process the case in half the time that it would normally take at the regional level. And so far we have been able to do that. But we are working as an experiment with the Administrative Conference to try to see whether or not this is really transferrable across the entire United States.

At this point in time, we have handled 40 cases. It looks good at this moment in time, but we have until the end of this fiscal year to evaluate that program.

Senator ABDNOR. Well, good. Good luck to you. I hope it works out.

Mr. ELLINGWOOD. The Congress gave us in the creation of the act the opportunity to develop alternative procedures to the regular judicial process. This is our first attempt to do that and we are happy with it so far.

Senator ABDNOR. Well, gentlemen, we thank you very much. I am happy we do not have to detain you any longer.

Mr. ELLINGWOOD. Thank you.

Senator ABDNOR. With that kind of a report, I am happy to let you go and we thank you for the fine work you are doing.

Mr. ELLINGWOOD. Thank you.

OFFICE OF SPECIAL COUNSEL

STATEMENT OF K. WILLIAM O'CONNOR, SPECIAL COUNSEL

ACCOMPANIED BY:
- SHIGEKI J. SUGIYAMA, ASSOCIATE SPECIAL COUNSEL FOR INVESTIGATION
- H. ALMA HEPNER, DIRECTOR, CONGRESSIONAL AND PUBLIC RELATIONS
- WILLIAM E. CALDWELL, DIRECTOR, OPERATIONS MANAGEMENT DIVISION
- LYNN R. COLLINS, ASSOCIATE SPECIAL COUNSEL FOR PROSECUTION

PREPARED STATEMENT

Senator ABDNOR. Our next witness is the Special Counsel of the Office of Special Counsel, Mr. William O'Connor.

It is a pleasure to have you with us again today, and will you proceed, Mr. O'Connor.

Mr. O'CONNOR. Thank you, Mr Chairman. I will follow the act of Mr. Ellingwood as effectively as I can; since he is the Chairman of the MSPB, it does make it tough. But let me say in exactly the same vein as you have requested, I will not recite our testimony but simply ask that it be included in the record as written.

Senator ABDNOR. I assure you your whole statement here will be made a part of the record.

[The statement follows:]

STATEMENT OF K. WILLIAM O'CONNOR

Please let me thank you for inviting me here today to discuss our budget request for fiscal year 1985.

Consistent with the Administration's budget, the requested budget authority for FY 1985 is $4,583,000 with 86 FTE positions. This represents an increase of $139,000 over the FY 1984 continuing resolution of $4,444,000 with no increase in FTE positions. This amount includes a pending supplemental appropriation of $85,000 for federal pay increases. The increase of funds in FY 1985 is based primarily on uncontrollable increases in fixed costs for office space and personnel compensation and for other increased expenses associated with investigations and prosecutions.

The FTE ceiling for the Office for FY 1983 was initially 113 but later was reduced to 86, consistent with Administration goals to reduce government expenses. Every effort is being made to operate within this ceiling without jeopardizing the statutory functions and responsibilities of the Office. Reduction of the FY 1983 level of operations to the planned FTE level required exceeding the 86 FTE slightly with the approval of OMB. Accomplishment of the revised FTE level for FY 1984 is being and will continue to be met through normal attrition and selective application of resources.

The statute requires OSC to investigate, and if warranted, prosecute all allegations of prohibited personnel practices, prohibited political activity, arbitrary or capricious withholding of information under the Freedom of Information Act and any other activity prohibited by civil service law, rule or regulation. The office is also specifically charged with protecting whistleblowers from reprisal and enforcing the Hatch Act. The profile of the pending workload is attached for your information. (Attachment A).

During FY 1983, investigative action was completed on 2,018 of more than 2,700 complaints alleging prohibited personnel practice pending during the year. In FY 1984, action is expected to be completed on 2,500 of a total 2,800 matters (including the 821 matters carried over from FY 1983.) Processing procedures were set in place to permit the average age of all pending matters and cases in the Office, including lengthy litigation cases to drop from a high of 212 days to the current average of 117.4 days. The average age of prohibited personnel practices not in litigation and not requiring complex investigation, dropped from a recent high of 201 days to the current 75.7 days. The attached charts depict the average age and real age of the pending workload of the office. (Please see Attachments B and C).

During FY 1983, 72 referrals evidencing government wrongdoing were made to agency heads. Based on current workload, the Office of the Special Counsel projects that referrals of 80 credible whistleblower allegations received will be made in FY 1984 and that 85 referrals of 100 projected receipts will be made in FY 1985.

In the area of Hatch Act enforcement, during FY 1983, the Office received 102 complaints and closed a total of 123 and filed 1 case before the Board. Estimates for FY 1984 indicate by year's end, the Office will receive 135 matters and close 140. To date this fiscal year 2 cases have been filed before the MSPB. During FY 1985 an estimated total of 120 Hatch Act complaints will be received. By year's end, 140 such complaints will be closed.

During FY 1983, a total of 32 OSC cases were litigated before the MSPB. So far, in FY 1984, 5 cases have been filed before the Board. Based on the past trend, 35 cases are expected to be brought by OSC before the Board during FY 1985.

Organizational changes instituted during FY 1983 and 1984 in virtually every function of the Office have been designed to ensure that the responsibilities of the Office are met in a timely and professional matter.

Let me call your attention to the major changes that have occurred since I last testified before you.

In order to increase efficiency and assure quality control, all new matters are now being processed before assignment for field investigation in the central office through the Complaints Examining Unit (CEU) which was established in September 1983. This new procedure relieves the field offices of burdensome paperwork and related duplicative record keeping. It also provides for more effective control and management of investigative activities nationwide.

CEU has received 694 new matters as of February 29, 1984, 495 of these have already been acted on - by closure, referral to the whistleblower unit, or referral for investigation. Matters are now being processed on an average of 48 days under this new system.

Concurrent with the creation of the CEU, the field offices in Philadelphia and Washington, D.C., were consolidated with the headquarters office. This realignment of staff and resources is aimed at improving efficiency and economy of OSC resources.

Investigative travel continues to be a priority. I have directed our investigative staff to investigate every complaint received, at least to the extent of an interview with the complainant. Thus, at a minimum, every complainant is being personally contacted by an investigator or an attorney. Personal contact by the staff reduces the chance of a valid complaint being overlooked because of the employee's inability to clearly and sufficiently articulate the charges in writing. The final decision to close a matter is made by the Associate Special Counsel for Prosecution, an experienced career executive, rather than by the field office staff. This approach is intended to provide a uniform approach to processing complaints and to focus our investigative efforts with the prosecutive ends more clearly in mind from the outset of any investigation.

As I have stated in the past, I prefer to take a prophylactic approach to Hatch Act enforcement. During the past year, a major campaign has been initiated to educate federal, state and local employees as to the provisions of the Hatch Act. To this end almost 14,000 pamphlets have been disseminated to federal, state and local agencies since the beginning of FY 1984. This effort will continue through FY 1985.

Training of OSC investigators and attorneys continues to be a priority. Periodically, training seminars are provided to staff explaining new procedures to improve quality and effectiveness of investigative activities and work products, policies and standards.

The cost to operate this office is approximately $17,000 per day. According to staff analysis, the average cost of a thorough investigation of a meritorious complaint of a prohibited personnel practice complaint ranges from $30-40,000. That estimate relates only to staff time and does not include overhead and travel expenditures.

Any reduction by Congress in the Administration's plan would place a severe strain upon our ability to function in accordance with present plans and would require imposition of major limitations on litigation. Without the requested level of funding, OSC will not be able to carry out the statutory scheme designed by Congress for protection of the merit system.

This concludes my formal statement which, along with our budget justification summarizes the need for our budget request for FY 1985 of $4,583,000 as submitted by the President.

I would be pleased to answer any questions that you or other members of the subcommittee may have at this time.

EXPENDITURES OF THE OFFICE

Mr. O'Connor. Thank you. And, Mr. Chairman, I would say that our year has also been a very good one. We are handling matters now on about a 71-day-turnaround for almost everything that comes into the office. That is way down from 200 days, which is at one time where it was. We are now proceeding with a fast screen in Washington. We have consolidated most of the work in Washington.

And that has caused a little bit of amplification of travel budget, but the net effect is not terribly significant We have found that the uncontrollables for this year, that is, personnel costs which have been made by the Congress, SLUC, which GSA has arranged for, is about $70,000 and the balance of our difference from last year is about $50,000 and that $50,000 or so is basically the cost of transcription of statements made by witnesses whom our interviewers see and depose, essentially, on the record and the cost of the travel of staff.

We are operating now at a staff level of about 88. We are down 27 percent from the place where we started in fiscal 1983, and we are operating at the level which is approximately the 86 FTE level, which was fixed by the OMB.

We expect to conclude this year in that same frame and we expect that our work levels will remain pretty constant.

Senator Abdnor. Thank you. That sounds like a fine report, too. Your processing time has dropped greatly, and I commend you for it.

What is the biggest reason for being able to drop your processing time?

Mr. O'CONNOR. I think centralization of significant functions, sir. We have brought into Washington a system called the complaints examining unit, which is the focus for receipt of all complaints, no matter where they originate in the Federal system.

This insures that we have a focused staff who are used to dealing with these complaints and make prompt identification of problems and treat all of the problems in a consistent manner, rather than having regional approaches, which might be aberrant from a policy norm.

Also we have eliminated field offices in Seattle, Los Angeles, Washington, D.C., Philadelphia, and Atlanta and brought those resources to bear in Washington.

Senator ABDNOR. It is good to hear you are constantly improving this. We are getting better results.

Back to your caseload again, you had a carryover last time. How is it going to be this year in relation to last year?

Mr. O'CONNOR. Well, we are carrying about 400 matters, I think, on the docket today, sir, and of the 400, I would say probably 50 or so or maybe 60 are in some stage of litigation and the rest are either in the incoming pipeline or going into investigation. We have found that the numbers are fairly constant. We are taking an input of about 140 matters a month. Analysis of those 140 matters a month indicates that about 5 to 10 per month warrant serious commitment of resources for investigation. And of those, perhaps two to three a month will develop into litigation.

When a matter becomes subject to litigation, it can be very extensive, very costly, and very time consuming. But we have a limited number of such matters. A recent matter which we concluded, the staff and travel and so forth involved in investigation and litigation have so far slightly exceeded $300,000. But that is not a common occurrence. We might figure we might have several of those in the course of a year, but not many.

Senator ABDNOR. We hear a lot about waste, fraud, and abuse, and I think you get into it in a big way. Tell us about the processing of the disclosure of waste, fraud, and abuse. Are most of the allegations credible?

Mr. O'CONNOR. Well, we receive annually, I would say, about 150 of what might be described as whistle blower type allegations, fraud, waste, and abuse as the category. And of those, after preliminary screening, we might forward as many as half, I think, to the agency heads.

The agency heads have found in about all of those we have forwarded something that needed to be done and something was corrected. We often find that the figures are overstated by the people who complain about fraud, waste, and abuse, and we have of course several modes for referring such matters to the agencies. There are modes where an urgent response is required where, for example, there might be something where an allegation is made that a hospital is treating people improperly and someone could get sick or die as compared to an allegation of an accounting inadequacy in some remote location. The latter would be a less significant and urgent matter than the former because where life or safety is concerned we would make our request for urgent treatment by the agency.

I am serving as part of the President's Council on Integrity and Efficiency in Government still, of course, and as—in that role I interrelate with the Inspectors General of all of the agencies and I find that informal and formal resolution of these matters with the Inspectors General's assistance makes it much more effective.

Senator ABDNOR. In your statement you have an attachment A where 11 percent of the cases are about whistle blower cases. You have that pie here. Do you see that?

Mr. O'CONNOR. That is 42 items, yes, sir.

Senator ABDNOR. Yes; 11 percent.

Mr. O'CONNOR. That is presently pending by type. And it is 11 percent of the gross. As you see, the volume is over in other PPP, which is prohibited personnel practices. It is sometimes described as P cubed. It is prohibited personnel practices. The Congress in its wisdom enacted a statute with repetitive first syllables.

Senator ABDNOR. How is the complaints examining unit working out?

Mr. O'CONNOR. Really well. I think that those people who are working there are becoming very, very effective at it and we have a skill mix that is very helpful. We have lawyers. We have investigators. And we have people who are accustomed to research in the same area. And we are all in Washington located now on one floor. In fact, we are now I think one of the few agencies which has gotten down to the 135 square feet per individual. And we are able to have easy access to each other's thoughts and processes as we go through our day's work.

So the people in the complaints examining unit, if they have questions, do not have far to go to get answers from others who have expertise in the area.

Senator ABDNOR. Well, good.

Mr. O'CONNOR. I should say that 135 square feet works pretty well, actually.

Senator ABDNOR. Well, great. One last question. There has been some discussion before the Judiciary Committee with regard to the efforts of your office. Do you believe the Office of Special Counsel could be more successful if they made some changes? I would not know what they would be, but——

Mr. O'CONNOR. Yes, sir. I think that the Office of Special Counsel, and I speak for myself on the basis of my year and a half or so there, would be more effective if it were an adjunct to the Department of Justice. I mentioned this in testimony before Senator Grassley on another occasion. Perhaps that is the remark to which you advert. I think that the opportunity to have litigation authority available to the Office of Special Counsel would be served in that mode, and I also think that the consolidation of prosecutorial functions in the U.S. executive branch would be served by that. I do not suggest physical change in location or anything like that, nor do I suggest by this any altercation with the Board. Our relationships with the Board are entirely proper and cordial and professional as they should be between a court and a prosecutor.

What I suggest simply is that the prosecutorial function and the investigative, inquisitorial functions, which my office performs, could as well and in fact I believe better be performed if there were an arrangement for folding the office into the Department of Justice so that those strong resources of the Justice Department could be brought to bear on problems which we address.

The cost of litigation is high and the Justice Department is set up to do that with broad skills across the country and in a variety of places.

I think it would be an amplification of, and an improvement of, the functions of my office.

Senator ABDNOR. Sometimes we are not always successful in getting legislation through the authorizing committees. We find someone coming up with an amendment to put on the appropriation; you do not see anything like that happening here in the event Mr. Grassley and his committee do not come forward with that.

Mr. O'CONNOR. No; I do not think that I see anything like that, but it would be all right with me.

Senator ABDNOR. It is one way to skirt the committee. Well, thank you.

Mr. O'CONNOR. Thank you very much, Senator Abdnor.

Senator ABDNOR. I appreciate your being here and your fine report. Thank you very much.

FEDERAL LABOR RELATIONS AUTHORITY

STATEMENT OF BARBARA J. MAHONE, CHAIRMAN

ACCOMPANIED BY:
- RONALD W. HAUGHTON, MEMBER
- HENRY B. FRAZIER, III, MEMBER
- JOHN C. MILLER, GENERAL COUNSEL
- MARK A. AGLIO, COMPTROLLER
- GEORGE B. BAILY, JR., DIRECTOR, OFFICE OF FINANCIAL AND PROGRAM ANALYSIS

INTRODUCTION OF ASSOCIATES

Senator ABDNOR. Our next group is the Federal Labor Relations Authority, Chairman Barbara Mahone of the Federal Labor Relations Authority and I think John Miller, General Counsel, is with her. And I will ask them to introduce—hi, Barbara.

Ms. MAHONE. Hello, how are you?

Senator ABDNOR. Fine. Chairman, I will ask you to introduce your group.

Madam Chairman, we are happy to have you here today. We have not seen you for awhile.

Ms. MAHONE. Thank you, Mr. Chairman. We are very pleased to be here this afternoon. And I would like to start by introducing my colleagues here at the table with me. With me are the other members of the Authority, Ron Haughton and Hank Frazier to my left; the General Counsel, Jack Miller, to my right; the agency's Comptroller, Mark Aglio and the Director of Financial and Program Analysis, George Baily.

Senator ABDNOR. Gentlemen, Madam Chairman, we welcome you all here. As you know your entire statements will be put into the record. You do have a prepared statement here, so I will ask you to summarize it and we will go from there.

SUMMARY OF BUDGET REQUEST

Ms. MAHONE. Mr. Chairman, I will be very happy to summarize our statement. As indicated, the Federal Labor Relations Authority is requesting $17,197,000 and 302 full-time positions for fiscal year 1985. This represents an increase of $334,000 from the level of the fiscal year 1984 continuing resolution plus the pay act supplemental request of $168,000.

The 302 full-time permanent positions represents the same level of staffing as fiscal year 1984. As you are aware, this budget, to a large degree, is composed of mandatory items of expenditures; discretionary funding is close to nonexistent. The Federal Labor Relations Authority is a very labor intensive organization and when you add personnel items, space, communication, and travel, it really comprises 95 percent of our budget.

Since discretionary funds are basically nonexistent, virtually every dollar of our budget for 1985 will be devoted to the furtherance of our mission.

The fiscal year 1985 budget request before you has been developed combining individual productivity enhancement and systems improvements. Productivity enhancements will result in further systemic improvements in case processing procedures.

An example of such procedures is our use of the short form decision format in those cases where authority precedent exists and that is working very well.

And recently I am happy to report that we formed a task force to expedite the processing of exceptions to arbitration awards where the record was clear that the exception failed to establish that the award was deficient on the grounds set forth in our statute.

Those are two types of productivity enhancements which we are very proud of.

ORGANIZATION OF AUTHORITY

I will not detail the organization of the Authority, but I would like to just briefly cover the adjudication function of the Federal services impasses panel. Mr. Miller will cover the General Counsel's operation.

With respect to the adjudication function, the Authority decides all matters brought before it concerning appeals on negotiability issues and exceptions to arbitration awards and renders final decisions in those unfair labor practice cases where one of the parties has appealed an underlying decision of the administration law judge.

We are anticipating increases in the Authority decisions ranging from over 6 percent to nearly 19 percent for fiscal year 1985 in the categories as indicated above. The Authority, however, will seek to keep pace with increases in case intake with existing staff levels by implementing productivity enhancements and improved operating procedures. Case backlog in the adjudication function is projected to decline in fiscal year 1985 and by the end of the fiscal year we are anticipating that the backlog will be just over 3 months as compared to currently 9 months. This represents a significant reduction in the backlog duration.

FUNCTION OF FEDERAL SERVICE IMPASSES PANEL

Briefly, with respect to the impasses panel, as you are aware, it is an entity within the Authority which is responsible for assisting the Federal agencies and unions representing Federal employees in resolving impasses during labor negotiations.

In essence, if the mediation effort of the Federal Mediation and Conciliation Service prove unsuccesful, the panel then assists the parties, as required, in resolving the impasse. Therefore, the panel emphasizes voluntary settlement agreements which are reached by the parties themselves and enhance commitment to contract terms.

The panel's role serves as the Federal sector substitute for the strike or lock out in the private sector. So, as a result, it is very important for the panel to have adequate resources available to deal with critical impasses. However, it is important to note that the workload of the panel is uncontrollable. It is projected that in fiscal year 1985 the panel will resolve approximately 180 impasses, and this represents an increase of slightly over 7 percent from projected levels in fiscal year 1984.

But again the panel hopes to handle the increase entirely through productivity improvement.

So, in summary, I am pleased to report that the Federal Labor Relations Authority has made significant progress in meeting its mission of promoting improved labor-management relations in the Federal sector. We remain committed to increasing our productivity levels and reducing case backlogs as well as the time required to adjudicate cases.

We will continue to seek innovative ways to streamline our procedures in order to expedite case processing.

PREPARED STATEMENTS

Ms. MAHONE. Mr. Chairman, with your permission, General Counsel Miller will summarize and address the budgetary aspect concerning the General Counsel's operation.

Senator ABDNOR. Welcome.

Mr. MILLER. Thank you, Mr. Chairman. Again, I will submit a formal statement and this will just be a brief summary.

Senator ABDNOR. We will also include your statement, Mr. Miller, in the record at this point.

[The statements follow:]

STATEMENT OF BARBARA J. MAHONE

It is a pleasure for me to appear before this committee today on behalf of the Federal Labor Relations Authority (FLRA).

The FLRA is requesting $17,197,000 and 302 full-time permanent positions for Fiscal Year 1985. This represents an increase of $334,000 from the level of the FY 1984 Continuing Resolution, Public Law 98-151 plus the pay act supplemental request of $168,000. The 302 full-time permanent positions represent the same level of staffing as FY 1984.

This budget is, to a large degree, composed of mandatory items of expenditure. Discretionary funding is close to nonexistent. The table below summarizes our request:

Item	Percent of Total Budget Request
Personnel Compensation and Benefits	74%
Standard Level User Charges	12%
Communications, Utilities, and Other Rents	4%
All Other Categories	10%
Total Budget Request	100%

When program travel is added to the above table, mandatory items rise to 95 percent of budget. Since discretionary funds are basically nonexistent, virtually every dollar of the FLRA's budget in FY 1985 will be devoted to furtherance of its mission. Unlike a larger Federal agency or department which may have greater flexibility in funding, the FLRA is usually not able to shift funds internally from one category to another to meet significant shortfalls or mandated reductions. For that reason, even a small increase in costs or reduction in budget authority can have dire consequences. Being extremely labor intensive, significant budget cuts will almost always affect staffing in our agency. For this reason, I stress that the request before you has been carefully scrutinized and represents only essential funding requirements. Reductions below $17,197,000 will directly impact on our ability to accomplish our mission.

I believe that this budget level will provide adequate resources for the FLRA to continue to perform its mission as a third-party neutral in the resolution of disputes between Federal unions, employees and agencies as outlined in Title VII of the Civil Service Reform Act of 1978. In addition, in accordance with Chapter 10 of the Foreign Service Act of 1980, necessary resources will be made available to effectively support the Foreign Service Labor Relations Board and the Foreign Service Impasse Disputes Panel.

It is easy to overlook the fact that the FLRA is still in its developmental stage as an independent Federal agency. Many internal operating policies and procedures are continuously being developed and refined. Significant progress has been made in evaluating and strengthening our internal controls to reduce or eliminate the potential for waste, fraud and abuse. We will continue to review our operating procedures and implement sound administrative procedures.

The FY 1985 budget request before you has been developed combining individual productivity enhancements and systems improvements. The result will be a substantially more productive and efficient operation. Productivity enhancements will result from further systemic improvements in case processing procedures. An example of such procedures is our use of a task force and short-form decision format to resolve exceptions to arbitration awards where the record was clear that the exceptions failed to establish that the award was deficient on any of the grounds set forth in our Statute.

Next, I would like to review our major program areas as well as projected caseload levels. The FLRA can be divided into five major program areas: adjudication, hearings, Office of the General Counsel, Federal Service Impasses Panel, and management and administration.

The adjudication function is comprised of the Offices of the Members, Executive Director, Chief Counsel, and Solicitor. In this program area, the Authority decides all matters brought before it concerning appeals on negotiability issues and exceptions to arbitration awards and renders final decisions in those unfair labor practice cases where one of the parties has appealed from an underlying decision of the Administrative Law Judge. Increases in Authority decisions ranging from over six percent to nearly 19 percent are projected in FY 1985 for cases from each of the above categories. The Authority will seek to keep pace with increases in case intake with existing staffing levels by implementing productivity enhancements and improved operating procedures. Case backlog in the adjudication function is projected to decline in FY 1985. By the end of the fiscal year, backlog is projected to be just over three months as compared to over nine months at the end of FY 1983. This represents a reduction of over 65 percent in backlog duration.

The Office of Administrative Law Judges is charged with the responsibility of holding hearings on unfair labor practice complaints issued by the General Counsel and for recommending decisions to the Authority. It is projected that workload levels for the number of recommended decisions and voluntary settlements obtained will increase by approximately five percent from FY 1984 to FY 1985. These projections represent increases resulting from improved productivity. Staffing in FY

1985 is projected to remain constant in the Office of Administrative Law Judges.

The Office of the General Counsel is responsible for investigating all alleged unfair labor practices under the Federal Service Labor-Management Relations Statute and the Foreign Service Labor-Management Relations Statute. It is responsible for, and has final authority over, the issuance and prosecution of all complaints arising under the Statutes listed above. The Office of the General Counsel is responsible for investigating and making the initial disposition on all petitions involving questions of representation as well as supervising or conducting all representation elections and certifying the results to the parties. The staff of the Office of the General Counsel is responsible for conducting all hearings in representation cases. The General Counsel is also responsible for directing and supervising the activities of all employees in the Regional Offices. Mr. Miller, in his prepared statement, will address the budgetary aspects concerning the General Counsel's operation in FY 1985.

The Federal Service Impasses Panel (FSIP, hereafter referred to as the Panel) is an entity within the FLRA which is responsible for assisting Federal agencies and unions representing Federal employees in resolving impasses arising out of labor negotiations. It is composed of Chairman Roy M. Brewer of California, and Members Jean T. McKelvey of New York, N. Victor Goodman of Ohio, Daniel H. Kruger of Michigan and Thomas A. Farr of North Carolina. All are Presidential appointees and work for the Panel on a part-time basis. If the mediation efforts of the Federal Mediation and Conciliation Service (FMCS) prove unsuccessful, the Panel will then assist the parties, as required, in resolving the impasse. Resolution techniques utilized by the Panel include informal meetings, factfinding and interest arbitration. The Panel emphasizes voluntary settlement, believing that agreements which are reached by the parties themselves enhance commitments to contract terms. The Panel's role serves as the Federal sector substitute for the strike/lockout in the private sector. As a result, it is most important for the Panel to have adequate resources available to deal with critical impasses. It is important to note that the workload of the Panel is uncontrollable. After mediation efforts are completed by the FMCS, the Panel must initiate its proceedings in a time-sensitive manner. As a result, the Panel has set specific objectives for timeliness. In FY 1985, the Panel will seek to promptly investigate negotiation impasses within 14 days after notification by the FMCS. Within 30 days after FMCS notification, the Panel will either recommend procedures for impasse resolution or render other assistance in compliance with statutory requirements. It is the goal of the Panel to close all cases within a median timeframe of 45 days. Those cases which require final action such as a Decision and Order will be closed within a median of 110 days. It is projected that in FY 1985 the Panel will resolve approximately 180 impasses. This represents an increase of slightly over 7 percent from projected levels in FY 1984. The Panel hopes to handle the increase entirely through productivity improvements. It is dedicated to furthering the principles of collective bargaining in the Federal sector and will continue to emphasize voluntary dispute resolution.

The management and administration function provides agency-wide support services to the National and Regional Offices. A full range of budget, financial, personnel, and administrative support services are provided through the Office of the Comptroller and the Office of Personnel. Both offices are located in the National Office, with responsibilities which encompass providing support for all FLRA employees, nationwide. Specifically, the Office of the Comptroller is responsible for the following: budget formulation and execution, financial accounting, space management, mail and messenger services, procurement and contracting, supplies, printing and reproduction services, records management, and property management. The Office of Personnel is responsible for: provision of a complete program of personnel management, position management, security, and occupational safety and health. The management and administration function serves as the main point of contact for all external requests made to the FLRA on administrative matters. Significant government initiatives such as implementation of the Financial Manager's Integrity Act, position management, and debt collection are referred to components within this function.

In summary, I am pleased to report that the FLRA has made significant progress in meeting its mission of promoting improved labor-management relations in the Federal sector. We remain committed to increasing our productivity levels and reducing case backlogs as well as the time required to adjudicate cases. We will continue to seek innovative ways to streamline our procedures in order to expedite case processing. In addition, the agency has taken major steps in improving its support operations and achieving economies. As a result, through increased emphasis on productivity and procedural improvements, the FLRA is able to request the same level of staffing in FY 1985. Accordingly, we are requesting budget authority for $17,197,000. Although this amount represents an increase of $334,000 over FY 1984, this increase will cover only the mandatory increases created by funding the pay raise effective January 8, 1984, and small increases in a number of uncontrollable expenses.

Although in terms of the overall Federal budget, that of the FLRA is a very small component, I assure you our contribution to ensuring sound Federal labor relations rates very high. We are committed to continuing to provide leadership over a positive Government-wide labor relations program. We will continue to place heavy emphasis on deciding cases and issuing decisions in an expeditious manner. Your approval of our budget request will permit us to move forward in achieving our congressionally mandated mission in the Federal sector.

General Counsel John C. Miller will now present his opening statement after which I will be prepared to respond to any questions you may have.

Thank you.

STATEMENT OF JOHN C. MILLER

As the General Counsel of the Federal Labor Relations Authority, I appreciate this opportunity to appear before you to present the budget request for the Office of the General Counsel for Fiscal Year 1985. I also want to support the total budget request for the Agency. After approximately one year as General Counsel, I am happy to be able to report to you a year of significant accomplishment in the timely processing of our caseload. We are looking ahead to similar levels of performance under this budget request, while keeping our case processing costs to a minimum.

The budget request for the Office of the General Counsel, hereafter referred to as the General Counsel, totals $9,556,000 for Fiscal Year 1985. This amount reflects an increase of $91,000 over the amount requested for Fiscal Year 1984, an increase of less than one percent. A total of 169 full-time permanent positions are requested for Fiscal Year 1985, the same amount available under our current budget request.

The total amount of the budget increase is dedicated to the increased costs of personnel compensation and benefits. These increases are offset, in part, by a net decrease in costs for our GSA assessments -- GSA rental space, or SLUC; and our FTS assessment, Federal Telephone Service. The increases in personnel compensation and benefits, totalling $147,000, result from increased costs in three areas -- the increased costs of within-grade increases, the annualization of the pay increase effective in January 1984, and the increased costs of the social security retirement payments for new Federal employees. Again, these costs are offset, in part, by savings accrued from a conscientious effort to reduce our existing space in the Regional Offices, wherever possible, and by an anticipated savings in our Federal Telephone Service, FTS, assessment.

Because these increases in costs are essentially beyond our control, this budget in effect reflects a "stand-pat" budget. No increases are requested in any non-personnel related area over amounts in our budget request for Fiscal Year 1984. All projected inflationary increases will be absorbed in this budget request. Funds requested for travel, for rental of word-processing and data--processing equipment, court reporting services, printing and reproduction, miscellaneous communications, and supplies and equipment are held constant. In addition to being held constant, these amounts are held constant at a relatively low level. For example, only $10,000 is requested for equipment procurements for the entire Office of the General Counsel in Fiscal Year 1985. Only $36,000 is requested to cover the costs to the General Counsel of printing and reproduction. The specific requests are explained further in our budget package.

Before reviewing the impact of this budget request on our program, I want to briefly outline for you the responsibilities of the General Counsel. The Office of the General Counsel is an independent component of the Federal Labor Relations Authority. Its independence is stressed in the Congressional Committee Reports which accompany the Civil Service Reform Act of 1978. Report No. 95-969 states that, "It is the intent of the Committee that the Office of the General Counsel will be an independent organizational entity within the [Federal Labor Relations] Authority, and thereby maintain a separation between the prosecutorial and adjudicatory functions of the Authority."1/ In the House Report on the Civil Service Reform Act of 1978, No. 95-1403, it states that, "The committee intends that the General Counsel be analogous in role and function to the General Counsel of the National Labor Relations Board.... Subsection (f)(3) gives the General Counsel direct authority over, and responsibility for, all employees in the Office of the General Counsel, including those in field offices of the [Federal Labor Relations] Authority."2/

The General Counsel is directly responsible for investigating all alleged unfair labor practices under the Federal Service Labor-Management Relations Statute, under the Panama Canal Act, and under the Foreign Service

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1/ Senate Report No. 95-969, "Civil Service Reform Act of 1978 -- Report of the Committee on Governmental Affairs, United States Senate, to accompany S. 2640 to reform the Civil Service Laws", page 99.

2/ House Report No. 95-1403, "Civil Service Reform Act of 1978 -- Report of the Committee on Post Office and Civil Service on H.R. 11280 to reform the Civil Service Laws", page 42.

Labor-Management Relations Statute. It is responsible for and has independent authority over the issuance and the prosecution of all complaints arising under the Statutes cited above. The General Counsel is also responsible for investigating and taking the initial dispositive action on all representation petitions, in addition to being responsible for supervising or conducting all representation elections and certifying the results of these elections to the parties. Finally, as outlined above, the General Counsel is directly responsible for managing and supervising the activities of all employees in the Regional Offices.

In addition to the responsibilities outlined above, effective in October 1983, the Authority delegated responsibility to the Regional Directors to prepare and issue final decisions in representation cases, subject to a limited right of review by the Authority. This delegation was intended to make the processing of the representation caseload more effective and efficient than in the past. Although this delegation was made effective in October 1983, at this time, this budget request reflects neither the shift of workload nor the shift of resources commensurate with the delegation. The shift of resources and revised workload estimates will be completed at a later date.

Experience in both private and public employment indicates that the statutory protection of the right of employees to organize, to bargain collectively, and, through labor organizations of their own choosing, to participate in decisions which affect them, safeguards the public interest and contributes to the effective conduct of public business. This statutory protection also facilitates and encourages the amicable settlement of disputes between employees and their employers involving conditions of employment. The Federal Service Labor-Management Relations Statute prescribes certain rights and obligations of the employees of the Federal Government and establishes procedures which are designed to meet special requirements and needs for the Government to be effective and efficient. The General Counsel initiates policies and guidance relating to Federal service labor-management relations and ensures compliance with statutory rights and obligations of Federal employees, labor organizations which represent such employees, and Federal agencies under Title VII of the Civil Service Reform Act of 1978.

Having reviewed our responsibilities, I would like to briefly review our budget request. After completing that review, I will discuss our projected workload for Fiscal Year 1985 and to review the significant accomplishments of the Office of the General Counsel over the past year.

The Office of the General Counsel is a "labor-intensive" organization. Of our total request of $9,556,000, $6,020,000 is dedicated to fund the projected cost of personnel compensation. An additional $631,000 is required to fund our projected costs for personnel benefits -- life insurance, health insurance, retirement costs, our share of the Medicare insurance assessment and our enlarged contribution for the social security benefits of our employees. This total of $6,651,000 for the costs of personnel compensation and benefits comprises roughly 70% of our total budget request.

A total of $1,382,000 is requested to cover our indirect costs -- our costs for GSA rental space; our assessment for Federal Telephone Service, FTS, charges; our assessment for Postal Service charges, penalty mail; and our assessment for the Federal Employee Compensation program, the FEC chargeback. This total of $1,382,000 equals 14.4% of our total budget request. Together, the costs of personnel compensation and indirect assessments total roughly 84% of our total budget request, more than five-sixths of the total amount. Excluding these indirect assessments from our budget request, the costs of personnel compensation and benefits total more than 81% of our total budget request.

A total of $650,000 is requested for travel of our staff in Fiscal Year 1985. This amount is equal to the amount requested in our 1984 budget. The need for travel funds in the Office of the General Counsel has been well documented in the past. These reasons were highlighted by the General Accounting Office in its informal report to the Congress, dated March 11, 1983. The provision of an adequate level of travel will ensure the timely disposition of the caseload pending before the General Counsel, including the timely settlement [illegible]tion of unfair labor practice cases determined to have merit. Adequate travel funds will enable the General Counsel to achieve a higher rate of voluntary settlement. Based on our previous experience, prompt on-site processing of the unfair labor practice caseload tends to result in voluntary settlement prior to the hardening of positions by the parties involved. The provision of adequate travel also results in the increased quality in the investigation of cases for three reasons -- less reliance on conducting indirect investigations by telephone and mail; less delay in investigations; and more time to conduct in-depth investigation of cases when on-site visits are made.

The total of $650,000 requested in this budget equals 6.8% of our total budget request. Based on our current estimates, this total is equivalent to a cost of roughly $85 per case action, a slight drop in cost per case action from a year ago. The decrease in this factor reflects the impact of the projected productivity increases built into this budget request.

Having adequate funds for our travel expenses is an area of concern. In the past we have experienced delays because of shortages in travel funds and because of travel restrictions imposed because of overall budget constraints. This budget reflects the full level of travel necessary for the Office of the General Counsel to function. While the presence of Regional Offices throughout the country serves to reduce the costs of travel, their presence does not eliminate the need for travel. If the parties had to travel to the Regional Office locations for the processing of their cases, the costs to the Federal Government would be many times greater than the costs incurred by sending our field agents to the site.

A total of $320,000 of our total budget request is required to cover our projected costs for court reporting services. With the exception of a small estimate included in the budget for the Federal Service Impasses Panel, the costs of all court reporting services within the FLRA are borne by the Office of the General Counsel. This total of $320,000 accounts for roughly 3.3% of our total budget request. The remaining six percent of our budget request funds our costs for rental equipment, maintenance contracts, supplies and equipment, staff training and other costs.

As I review this budget request, I am convinced that this level of funding will be sufficient to meet our requirements. At the same time, while this budget is adequate, it will require prudent management on our part to ensure that our resources are used effectively and wisely throughout the course of the year. With this budget request, we will absorb the costs of two staff- years through more effective management of our turn-over, or 'lapse'.

At the same time that we talk about the allocation of funds, we want to stress that we have been able to keep the costs of processing our caseload to a minimum. The increase of $91,000 in our budget request for Fiscal Year 1985 is more than offset by projected increases in productivity, so that actual case processing costs for Fiscal Year 1985 will drop somewhat below levels projected to be reached in Fiscal Year 1984. Our total direct costs, excluding the indirect GSA assessments outlined earlier, will remain constant at a level of $1,064 per case action. The stability in this factor confirms that our productivity increases are sufficient to offset the increases in our budget for the costs of personnel compensation and benefits. Because of reductions in our GSA space and FTS assessment, our total processing costs, including the indirect assessments, will drop from a a level of $1,253 in Fiscal Year 1984 to $1,244 in Fiscal Year 1985. Reflecting our increased level of productivity last year, both of these factors are slightly below the level to which I testified previously, $1,260. The factor of $1,244 in Fiscal Year 1985 includes all costs to the Office of the General Counsel, both direct and indirect. Salary and benefit costs are included, as are the costs of travel, administrative and managerial support, and the costs of supplies, equipment, court reporting services as required, rental equipment, space rental, FTS costs, etc.

As a part of the normal budget process, we have already submitted a detailed written budget justification in support of this budget request. With your permission, I would like to touch briefly on some of the highlights of that justification and make a few other observations as well.

The General Counsel has no control over the size of its case intake. In Fiscal Year 1983 we received a total of 5,710 new cases. This total exceeded the previous year's total of 5,248 new cases by 8.8 percent. While we are not projecting such sharp increases either this year or in Fiscal Year 1985, nonetheless we do anticipate that our case intake will continue to increase. This year we are projecting an intake of 6,152 new cases, an increase of 442 cases or 7.7 percent. In Fiscal Year 1985 we anticipate that a total of 6,441 new cases will be received. This total is equivalent to an increase of 289 cases, or 4.7 percent.

These projected increases are consistent with conclusions reached in the GAO study, which forecast that the numbers of unfair labor practice charges filed with the General Counsel would continue to rise in future years. Of the total of 6,441 new cases projected to be received in Fiscal Year 1985, 6,076 cases will involve allegations of unfair labor practices. This total is equivalent to roughly 94 percent of our total case intake. A total of 365 representation case petitions are projected to be received both in Fiscal Year 1984 and in Fiscal Year 1985. This total is essentially equal to our representation case intake total for Fiscal Year 1983, 364 cases. With these projected intake totals, we are confident that this budget request contains the staff and resources sufficient to enable the Office of the General Counsel to handle its projected level of intake. At the same time, we are cognizant of the fact that we are not in a position to cope with an unprojected sharp increase in our case intake, similar to that which occurred in Fiscal Year 1981.

The General Counsel is directly responsible for exercising general supervision over all employees in the Regional Offices and for ensuring the effective and efficient operation and administration of the Agency's nine Regional Offices. The General Counsel and his executive staff provide advice, assistance and review of all phases of Regional Office performance to ensure adherence to case handling standards. The detailed functions of the General Counsel and the structure of the Office are described in the budget justification materials also submitted to this Committee.

The following brief look at the case flow of the General Counsel focuses on its principal challenges in processing its caseload. As noted above, we have no control over our caseload and must respond to all inquiries concerning possible violations of the Statute. In each of its nine regional offices and three sub-regional offices, the General Counsel has implemented both an informal and a formal screening process which provides technical assistance to the clientele and thereby eliminates in many instances the filing of cases which clearly involve issues outside the parameters of our Statute.

When an unfair labor practice charge is filed, it is investigated and, if found to be meritorious, the parties are encouraged to settle voluntarily without further action. If settlement cannot be obtained, a complaint is issued and prosecuted by the staff of the General Counsel in a hearing before an administrative law judge. Settlement efforts are encouraged constantly, and voluntary settlement is often obtained even after the issuance of complaint. In Fiscal Year 1983 the total settlement rate for the Office of the General Counsel

reached a level of 89.5%. This factor essentially equalled the factor in each of the last two years. This factor has also remained essentially stable through the first four months of the current fiscal year. During the past year we had a pre-complaint settlement rate of 65%, which reflects the success of our efforts to obtain voluntary settlement once a violation of the Statute has been found. Our post-complaint settlement rate equalled a level of 69.5% for Fiscal Year 1983, again comparable to factors seen in each of the previous two years. Both of these factors have been sustained through the early part of Fiscal Year 1984.

Cases found, after full investigation, to be without merit are either withdrawn voluntarily by the charging party or dismissed. The decision of the Regional Director in refusing to issue complaint in these cases is appealable directly to the General Counsel.

Outlined below is a summary of the outcomes of a typical sample of 100 cases, based on actual experience in Fiscal Year 1983. Of these 100 cases, 38 are found to have merit. In two of these 38 cases, informal settlement is obtained prior to the issuance of complaint. In 23 of these cases, a party settlement is obtained involving the withdrawal of the charge. A total of 13 of the 38 merit cases result in the issuance of complaint. In nine of these 13 cases, voluntary settlement is obtained following the issuance of complaint but prior to the close the hearing. In only four cases in 100 must the charge be referred to the Authority for disposition, incurring the substantial costs cited by the General Accounting Office in its report on the processing of unfair labor practice cases in the Federal sector. In roughly three of the four cases referred to the Authority, a hearing is held before an administrative law judge prior to the transfer of the case to the Authority. In the remaining case, a stipulation of the facts is obtained, resulting in the transfer of the case directly to the Authority from the Regional Offices.

Of the 62 cases found to be without merit, the charges are withdrawn in 34 cases, nearly 55% of all cases. In 18 of the remaining 28 charges, dismissals are issued by the Regional Director and are not appealed by the charging party. In nine of the ten remaining cases which do result in a dismissal and an appeal of the dismissal to the General Counsel, the decision of the Regional Director is sustained. The decision of the Regional Director is reversed or remanded in the remaining case.

Briefly, I would like to review our accomplishments in Fiscal Year 1983 and then look briefly at where we are headed in Fiscal Year 1985.

In Fiscal Year 1983, a total of 5,710 new cases were received. Included in this total were 5,346 unfair labor practice charges and 364 representation cases. The high level of case intake appears to result in the combination of five factors, which are outlined below.

-- First, the clientele are increasingly aware of the existence of the Office of the General Counsel, spread by technical assistance efforts and knowledge of our function.

-- Second, the Office of the General Counsel provides expeditious case processing. In approximately 70% of all cases, disposition was made by the Office of the General Counsel within three months of receipt. This factor represents an increase of ten percentage points over the factor of 60% for Fiscal Year 1982. At the end of Fiscal Year 1983, only 85 cases were more than

75 days old and pending without dispositive action. This total equalled only one percent of our total caseload, and fell markedly below the comparable factor of the previous year.

-- Third, the General Counsel encourages voluntary settlement of the charge, once merit is determined. As outlined above, in Fiscal Year 1983, 89.5% of all meritorious cases are settled voluntarily prior to the holding of a hearing. Further, roughly two-thirds of all cases are won by the General Counsel if voluntary settlement is not obtained. The high settlement rate is, to a great extent, the result of clientele confidence in the professional judgement of the staff of the General Counsel in determining whether a particular charge is meritorious. In this regard, statistics verify that, once the Regional Office determines the merit of a charge, this determination is sustained in 98 percent of all cases.

-- Fourth, the General Counsel offers an accessible, cost-free mechanism to the parties to resolve disputes. It assists the parties in their bargaining relationships by its involvement in the resolution of their disputes.

-- Fifth, the results of previous activity result in increases in case intake. It should be recognized that, contrary to common perception, the increased issuance of Authority decisions under the Statute will not result in a decrease in caseload generally, nor in a decrease in the issuance of complaints and concomitant litigation. Because many of the decisions issued by the Authority will of necessity deal with complex issues, it can be anticipated that the parties will, through the use of unfair labor practice charges, attempt to explore the full meaning of these decisions. Both management and unions will undoubtedly test the outer limits and parameters of the Authority decisions. Their respective actions will result in an increase in cases and litigation. Moreover, it is this type of case which by its very nature does not readily respond to settlement efforts. This assumption, although contrary to some generally held perceptions, is not based on idle or unsupported speculation. An examination of similar experience in the private sector under the National Labor Relations Act will confirm this phenomenon.

With respect to the unfair labor practice charges now being filed, two trends are noticeable -- first, charges are now being filed which explore the full meaning of Authority decisions; and second, charges are now being filed which involve disputed facts and the credibility of witnesses, in contrast to earlier charges which involved solely questions of statutory interpretation. These two types of cases are the most difficult in which to obtain voluntary settlement. However, we continue to stress voluntary settlement and we project that voluntary settlement will continue to be obtained in more than six out of every seven cases which are determined to be meritorious. As a result, at most only five percent of all unfair labor practice charges will need to be brought before the Authority for a decision. The peaceful resolution of labor disputes through the voluntary settlement process encouraged by our Regional Offices remains the most desirable alternative of dispute resolution. When long delays are built into our case handling processes, the positions of the parties become hardened and voluntary settlement is more difficult to obtain. For this reason, direct and substantive benefits accrue to the efficient operation of the Federal Government when unfair labor practice charges are investigated and decided with reasonable expedition.

Fiscal Year 1983 was a year of significant accomplishment for the staff of the General Counsel. Because of the very high productivity acheived by the staff again last year, I am confident that we will be able to successfully meet the demands of the difficult years ahead. I would like to take just a minute to emphasize to you the four factors which I consider most important in the overall accomplishments of the General Counsel during the past year.

-- First, a total of 5,884 dispositive actions were taken last year. This total exceeded slightly the total number of new cases received, and exceeded by 372 cases the total number of dispositive actions taken the previous year. This increase was equivalent to a factor 6.7%.

-- Second, at the end of the year, a total of only 988 cases were pending without dispositive action in the Office of the General Counsel. This total was the lowest total ever for the Office of the General Counsel. At the end of the fiscal year, only 85 cases were "over-age" -- more than 75 days old and pending without dispositive action. Again, this total was the lowest total ever for the Office of the General Counsel.

-- Third, the median age case processing factor was reduced to a level of 73 days during Fiscal Year 1983. This factor fell below the comparable factor for Fiscal Year 1982.

-- Fourth, we sustained the extremely high percentage of meritorious unfair labor practice cases in which voluntary settlement was obtained, thereby avoiding the expense and disruption to normal operations which litigation involves. As outlined earlier, the total settlement rate reached a level of 89.5% in Fiscal Year 1983.

-- Fifth, the staff of the General Counsel sustained a very high level of productivity throughout the year. We exceeded our goal of a five percent increase in productivity. The high level of staff productivity was reflected in our ability to handle a six percent increase in intake and at the same time reduce our pending caseload at the end of the year.

-- Sixth, we kept our direct case processing costs below a level of $1,100 per case for the third consecutive year. As outlined earlier, we project to sustain these low costs both in this year and in Fiscal Year 1985.

-- Seventh, we made significant process in the computerization of our statistical reporting system. This system was expanded to identify and summarize data based on the parties involved in our cases -- both Federal agencies and labor organizations. During the coming year we anticipate that the program will be expanded still further to track the various issues raised in the cases which we receive.

Looking ahead to Fiscal Year 1984 and to Fiscal Year 1985, we believe that the accomplishments of Fiscal Year 1983 will be sustained to a great degree. We project that case intake will exceed the number of dispositive actions taken in Fiscal Year 1985, to roughly the same degree that was seen in Fiscal Year 1981. The number of cases pending with no dispositive action at the end of the fiscal year will increase, rising to a total of 1,057 cases. It is possible that case processing time-frames will increase roughly 30 days during the coming year.

The budget request for Fiscal Year 1985 contains projected productivity increases for every workload area, ranging from levels of six cases to 9.5 cases per professional. In percentage terms, these productivity increases range from levels of 9.4% to 11.1% over actual productivity levels reached in Fiscal Year 1983. In each year, the General Counsel has projected productivity increases, and in each year these increases have been met. These increases are essential if we are to continue to be able to process our incoming caseload in a timely manner.

Along with projected increases in productivity, we project that we will have a stable merit factor and that we will continue to sustain a high rate of voluntary settlement. In order to avoid a build-up of backlogs it is essential that we sustain our effectiveness in three areas -- high productivity per individual, a high rate of voluntary settlement, and the timely disposition of our cases. Decreases in any one area compound themselves and result in decreases in the other areas as well.

Looking at our budget request, I would like to detail for you the planned levels of expenditures for the Office of the General Counsel.

Salaries and Benefits.............................	$ 6,651,000	69.6%
Overtime...	---	---
Travel and Transportation of Staff.................	650,000	6.8%
Shipment of Goods..................................	8,000	0.1%
Non-FTS Telephone Costs............................	123,000	1.3%
FTS Telephone Costs................................	121,000	1.3%
Standard Level User Charges (SLUC-GSA).............	1,205,000	12.6%
Non-GSA Space Rental Costs.........................	5,000	0.1%
Rental of Word- and Data-Processing Equipment.......	141,000	1.5%
Printing & Reproduction (Forms, etc.)..............	36,000	0.4%
Court Reporting Service Contracts..................	320,000	3.3%
Equipment Repair Contracts.........................	60,000	0.6%
Employee Training ($150 per position)..............	25,000	0.3%
Employee Health Service Contracts..................	15,000	0.2%
Miscellaneous Services (Manpower Contract, etc.)....	3,000	---
Penalty Mail.......................................	45,000	0.4%
Federal Employee Compensation Chargeback............	5,000	0.1%
Law Library Subscriptions (Nine Regional Offices)...	75,000	0.8%
Office Supplies (Nine Regional Offices).............	52,000	0.5%
Equipment (Replacement)............................	10,000	0.1%

I have gone into great detail concerning our budget to assure you, Mr. Chairman, and other distinguished Members of this Committee, that every dollar appropriated to the General Counsel will be dedicated to the furtherance of our mission. Our first priority in Fiscal Year 1985 is to fund the positions authorized for our use. We are providing full funding for our travel requirements, at the same time that we are holding travel to a level equal to that approved in Fiscal Year 1981 and requested again in Fiscal Year 1984.

In looking ahead to Fiscal Year 1985, I want to briefly touch on two areas that concern me greatly. First, I want to stress to you my continued commitment to the principals of equal employment opportunity. I am proud of the record of the Office of the General Counsel to date and I pledge to do the most that I can to see it sustained.

Second, I want to stress to you that staff training is an essential component of the success of the General Counsel, and that it has played a significant role in our ability to sustain the current level of our case processing. Training is essential in maintaining the quality of the staff in the complex field of labor-management relations and is an integral part of our career development process.

In reviewing the status of our caseload for Fiscal Year 1985, I see two principal challenges --

first, to sustain the high voluntary settlement rate which has been characteristic of the Office of the General Counsel through its first four years of existence; and

second, to sustain the timely processing of the caseload.

I am committed to the accomplishment of both objectives.

The two challenges are inter-connected. As outlined earlier, it has always been one of the principal objectives of the General Counsel to maintain the highest possible level of voluntary settlement. Success in meeting the first challenge is critical if we are to meet the second. The earlier that voluntary settlement of a dispute is obtained, the more time our agents can devote to other cases. Success in sustaining a high rate of settlement significantly reduces the adverse impact of labor-management disputes between the Federal Government and its employees. The timely processing of cases is also essential in obtaining a high voluntary settlement rate because the positions of the parties tend to become less amenable to negotiation and voluntary settlement efforts the more prolonged the time between the filing of the charge and disposition. In our brief experience, we have noted that our voluntary settlement rate has decreased in conjunction with the sharp increase in our backlogs.

In the investigation of unfair labor practice cases, we project backlogs of only 1.5 months at the end of Fiscal Year 1984, consistent with our budget submission of last year. We project this factor to increase by two weeks in Fiscal Year 1985, rising to a level of two months. We project that the level of case intake will slightly exceed the level of new cases in Fiscal Year 1985, after remaining in relative balance in Fiscal Year 1984. In Fiscal Year 1985, we project that a total of 5,640 dispositive actions will be taken, compared to a total of 6,076 new cases received. We project that a total of 1,552 cases will be pending at the end of the year, compared to a total of 1,116 cases pending at the end of Fiscal Year 1984. A total of 1,057 cases are projected to be in actual backlog status at the end of Fiscal Year 1985, compared to 646 such cases projected to be in actual backlog status at the end of Fiscal Year 1984.

In the area of prosecution and settlement in the unfair labor practice caseload, a backlog of two months is projected at the end of Fiscal Year 1984. This factor is again consistent with our budget request of last year. In Fiscal Year 1985, the backlog is projected to be reduced by roughly two weeks to a level of 1.5 months. A total of 790 complaints are projected to be issued in Fiscal Year 1985, essentially equal to the projected total for Fiscal Year 1984 and only slightly above the total of 758 complaints issued in Fiscal Year 1983. In Fiscal Year 1985, 816 complaint dispositions are projected to be taken, slightly above the total number of complaints issued and slightly above the total of 780 complaint dispositions projected for Fiscal Year 1984. Of the total of 816 complaint dispositions projected for Fiscal Year 1985, voluntary settlement is projected in 490 cases. A total of 277 complaints are projected to be pending without disposition at the end of Fiscal Year 1985, slightly below the totals for Fiscal Years 1983 and 1984, 298 and 303 cases respectively.

With respect to the workload for appeals of the refusal of a Regional Director to issue complaint, a total of 609 appeals are projected to be received in Fiscal Year 1985. This total is essentially equal to actual intake in Fiscal

Year 1983, 604 appeals, and the projected total for Fiscal Year 1984, 606 appeals. A total of 642 appeal dispositions are projected for Fiscal Year 1985, exceeding comparable totals in both Fiscal Years 1983 and 1984 -- 589 cases and 612 cases respectively. The backlog of appeals is projected to be eliminated by the end of Fiscal Year 1985, barring an unforeseen increase in case intake. In this workload area, case processing timeframes will be reduced by a total of 30 days from the level at the end of Fiscal Year 1983 and two weeks below the factor for Fiscal Year 1984.

With respect to the representation caseload, a total of 372 dispositions are projected for Fiscal Year 1985, slightly above the total of 365 cases projected to be received and 20 cases above the total of 352 dispositions projected to be taken in Fiscal Year 1984. A total of only 58 cases are projected to be pending at the end of the year, in between the totals for Fiscal Years 1983 and 1984 -- 52 cases and 65 cases respectively. The backlogs are projected to remain constant in this workload area, equal to a level of roughly one month.

-- Conclusion --

This concludes my formal statement in support of the budget request for the General Counsel for Fiscal Year 1985. I have attempted to explain in detail the impact of this budget request on our Office and on our ability to fulfill our mission. With the continued support and assistance which this Committee has provided in the past, I pledge that my staff and I will continue to strive to meet our responsibilities and the challenges which we are certain to face. Thank you for your attention. I will be happy to respond to any questions which you might have.

GENERAL COUNSEL'S BUDGET REQUEST

Mr. MILLER. I would like to point out that for fiscal year 1985 our budget request for the General Counsel's operations is approximately $9,500,000. This represents only an increase of $91,000 over fiscal year 1984. As you may be aware, our organization is highly labor intensive. For example, personnel compensation costs represent 70 percent of our budget; 13 percent is represented by indirect costs, namely SLUC, standard level users charges; that is essentially space; and 7 percent is for travel.

These three items represent 90 percent of our budget. In fiscal year 1984 we have completed a reduction of space in the regional offices approximating 10,000 square feet, and that reduced cost will help us to absorb some of our normal compensation increases.

Senator ABDNOR. How were you able to do it, less manpower?

Mr. MILLER. Well, no, we simply sent a man out and visited all the regional offices and he identified where there was excess space or we thought there was excess space—for example, in a lot of the regions we had either libraries or hearing rooms. Now, it depends on how frequently the hearing room was used. In some regions where we found it was being underutilized, we would either make arrangements to have some other hearing room used by another Federal agency and turn our space in, or in other ways trim back the space usage in the regional offices.

There was, of course, a RIF back in 1982 and those space accommodations were not made until more recently. So that by the end of fiscal year 1984 we will have reduced over 10,000 square feet of space.

STATUS OF CASELOAD

Now, as far as case intake goes, in fiscal year 1983 we had an increase of 8.8 percent. Now, we are projecting for fiscal year 1985 a 4.7-increase, a much lesser increase. Now, just briefly, the status of cases—and I have these figures as of the end of January 1984—now, the total cases we have pending in the regions at the end of January 1984 were 813 cases. And that happens to be the lowest total ever pending. Our median case processing time has been reduced 10 percent to 69 days.

At the end of January we had 19 cases that were older than 4 months; of those 19, 5 involved European cases. Now, I mention that because we normally do not send an investigator over to try one case at a time in Europe. We wait until a number of cases have accumulated, maybe anywhere up to 10 to 15 cases, and then they are investigated in that order. So there is a delay there for handling the European cases. But we think it is a more effective use of our resources.

Now, one other thing, we deem a case over age if it is more than 75 days old. Again, as of the end of January, we had only 90 cases that were deemed over age.

Now, in the past fiscal year, 1983, out of 100 charges filed, it was determined that 38 had merit. Of those 38 that had merit, 25 were settled or withdrawn. Thirteen of the 38 resulted in complaints being issued and out of those 13, 9 were settled. As a result, only 4 out of every 100 cases filed in the Office of the General Counsel actually reached the Authority; 3 through actual litigation and 1 case was normally stipulated directly to the authority.

So out of every 100 charges that were filed, that gives you a picture; only 4 get to the Authority.

I think upon reviewing in detail our budgetary figures, I am satisfied that we have adequate resources to do two things that I have been attempting to emphasize, and I am sure my predecessors did before me—simply to timely process the cases and also to maintain a high settlement rate. We can do both.

We keep the backlog down for the Authority if we can maintain a high settlement rate and at the same time we are effectively rendering a service by getting either settlement or withdrawal of the charge. That completes my summary. If you have any questions, I would be glad to entertain them.

Senator ABDNOR. I want to commend you both for your very splendid reports. That is very encouraging. Is the budget that you have been given one that you think you can live with in good shape?

Ms. MAHONE. We have to live with it.

Senator ABDNOR. That is an unfair question. On the allocation of the request for $17,197,000, how much is allocated to you out of that?

GENERAL COUNSEL REGIONAL OFFICE OPERATIONS

Mr. MILLER. Approximately $9.5 million goes to the General Counsel, which reflects regional operations. We have nine regional offices and three subregions. In the Washington headquarters I only have approximately 19 professionals where we monitor regional operations.

Senator ABDNOR. Let me talk a minute about backlogs. Do some areas of the regions of the country have more difficulty than others or are they about the same all over?

Mr. MILLER. Well, we attempt to keep the cases moving as the case intake may vary as we go along, but generally speaking we attempt to keep the workload balanced. We do not want one region to have twice as many cases as another unless they happen to have staff twice as big. As it is, we incurred some difficulty when we had to curtail travel back in 1982. We had one or two regions which covered any where from seven to eight States and when they could not travel due to budgetary restrictions, and they could not investigate. And of course the cases piled up.

So we have had no real backlog existing in any of the regions except for a number of months. I think it was last June that one region, which had been hampered by a lack of travel, was able to clean up its backlog. We are on a pretty current basis in all the regions, and it is really a normal caseload processing.

Senator ABDNOR. When you send administrative law judges, do you go to the heaviest areas, is that the idea, or are so many assigned to a region?

Mr. MILLER. Do you want me to answer that?

Ms. MAHONE. No.

Mr. MILLER. Go ahead.

OFFICE OF ADMINISTRATIVE LAW JUDGES

Ms. MAHONE. The administrative law judge staff is a part of the Authority's component. Basically, if the General Counsel's Office finds that an issue has merit and it goes to a hearing, then that administrative law judge would hold a hearing and they would travel to the respective site, often a regional office. In some cases what they have been doing is having what they call calendar calls, where they try and consolidate a number of hearings all at one time which has proven to be a way of them reducing the amount of travel cost to the Authority.

And so that has worked extremely well.

Senator ABDNOR. Is that something you have been doing just lately? Is that a new practice?

Ms. MAHONE. Yes; the calendar call concept first started on an intensive basis in 1982 when we really were faced with substantial reduction in our travel expenditures.

NATURE OF CHARGES FILED

Senator ABDNOR. Mr. Miller, you have a lot of litigation. How much of it is frivolous? I mean, sometimes it gets to be a popular thing to do, bring charges, and how do you find it?

Mr. MILLER. Well, first of all, I might say that when we remove wages and working conditions from the bargaining table; that removes a very big, major item of controversy. So then when you start looking at what is left to bargain with, it certainly might be deemed trivial in someone's eyes; in the union's eyes it may well be a major factor in their representing employees.

Now, I do think and based on my experience also with the National Labor Relations Board, we found that maybe 25 percent of those cases dealt with are relatively minor things. We felt they were minor at the National Labor Relations Board when they only dealt with suspensions of 3 days or a reprimand or a threat, nothing that was really carried out. Those were more or less minor.

In the Federal sector, it is more difficult to categorize them, but I would say that pattern is probably followed, that you might find that that is an area we feel is ripe for settlement actions. In other words, if some unilateral change is made without consulting with the union and charges are filed and it involves only minor changes, this is the kind of thing that we think a complaint may be necessary to get the parties together to work out a settlement.

And we always emphasize settlement from the time the charge is filed up through and until the date of the hearing. All along we attempt to get the parties to settle so when I finally get to the answer to your question, it is true that some of the disputes seem somewhat trivial, but in many instances those are the areas where we get our 89.5-percent settlement rate.

In other words, out of 100 cases filed 38 are meritorious and of those 38 we settle 89 percent. So while it is difficult to categorize, I would say there are a number of trivial items, but again it is usually in the eyes of the beholder.

Senator ABDNOR. I was going to say I do not think they are trivial to the person bringing the case. So that is most important.

INVESTIGATIONS INVOLVING NATIONAL GUARD TECHNICIANS

Well, let me ask you one last thing. It has been recently called to our attention that the Authority has been involved in some investigations with regard to the National Guard technicians. I do not fault the effort of the FLRA to arbitrate labor problems. I know that is supposed to be your mission.

However, I am concerned that because of the special role the technicians play in readiness that in the training of the Guard, that traditional labor and management negotiations procedures should not be applicable. I just call this to your attention now because I intend to try to do something about it later this year.

Mr. MILLER. I think the chairman may want to respond to that.

Senator ABDNOR. Fine.

Ms. MAHONE. This has obviously been an area that has had considerable discussion since Congress included the National Guard civilian technicians under our statute. However, we have proceeded in processing those cases on the basis that civilian technicians of the National Guard are no different than any other Federal employee and so any other changes in that regard really have to be left up to the Congress at this point in time.

Senator ABDNOR. I am well aware of that. So I am just letting you know we have concerns about that and you may be hearing more about it

Ms. MAHONE. OK.

ADDITIONAL COMMITTEE QUESTIONS

Senator ABDNOR. With that, I thank you very much for your very fine reports. It has been a pleasure to have you.

We will have some additional questions to be answered for the record.

Ms. MAHONE. Thank you. We will be glad to respond to them.

[The following questions were not asked at the hearing but were submitted to the Department for response subsequent to the hearing:]

ADDITIONAL COMMITTEE QUESTIONS

Question. In two recent decisions, Association of Civilian Technicans, Pennsylvania State Council, and Pennsylvania Army and Air National Guard, 14 FLRA No. 6 (1984) and Wisconsin Army National Guard and Association of Civilian Technicians, 14 FLRA No. 11 (1984), the Authority held that National Guard technicians are not covered by the broad-scope grievance procedures of the Labor Act 5 U.S.C., section 7121. Do those decisions recognize the proposition that National Guard technicians are different from other Federal employees and are not subject to certain sections of the Labor-Management Act?

Answer. The Authority adjudicates cases pursuant to the provisions of title VII of the Civil Service Reform Act of 1978, the Federal Service Labor-Management Relations statute. When resolving issues relating to the duty to bargain under section 7117(c) of the statute, the Authority is reviewing an agency allegation that a proposal is nonnegotiable because it is inconsistent with a Federal law or Government-wide rule or regulation, or an agency rule or regulation for which there is a compelling need.

With respect to your specific questions, we cannot, of course, speak to matters which are or may come before the Authority in the adjudication of cases under the statute.

The Authority's decisions in 14 FLRA No. 6 and 14 FLRA No. 11 rely on U.S. courts of appeals decisions which uniformly interpreted and applied section 709(e) of the National Guard Technicians Act of 1968. In that connection, those court decisions concluded that the agency had no duty to bargain under the statute over proposals that provided for the inclusion within the scope of a negotiated grievance procedure of grievances concerning an adjutant general's decision to take any of the actions enumerated in section 709(e). As discussed above, in resolving a negotiability dispute pursuant to the provisions of section 7117, the Authority reviews an agency allegation of nonnegotiability appealed by an exclusive bargaining representative. The issue before the Authority in the referenced cases was whether the scope of the grievance procedure in dispute violated the Technicians Act. Inasmuch as it was that act that was the basis for the resolution of the cases, the Authority recognized statutorily prescribed requirements for National Guard technicians, as they relate to provisions of the Authority's statute.

Question. National Guard technicians are the only Federal employees that are required by statute to be military members as a condition of employment. Does this requirement bring National Guard technicians within the exception to coverage of the Labor-Management Act contained in 5 U.S.C. section 7103(a)(2)(B)(ii) which excludes a member of the uniformed services?

Answer. The Authority, in effect, dealt with this contention in *State of Nevada National Guard,* 7 FLRA 245 (presently pending before the Authority on a different issue, on remand from the U.S. Court of Appeals for the Ninth Circuit), wherein it was concluded that the definition of "employee" for the purposes of section 7103(a)(2) of the statute (5 U.S.C. section 7103(a)(2)) includes National Guard technicians when such technicians are performing their full-time civilian duties under the National Guard Technicians Act of 1968.

Question. Title 10, section 976(c)(2) prohibits any civilian officer or employee or any member of the Armed Forces from negotiating or bargaining on behalf of members of the Armed Forces. Does this provision prevent collective bargaining by National Guard technicians over their military terms or conditions of service?

Answer. To my knowledge, the issue of whether 10 U.S.C. section 976(c)(2) prohibits National Guard technicians from bargaining over their military terms or condition of service has never been raised in a case before the Authority. However, where it has been established that bargaining proposals would have determined conditions of military service, the Authority has held these to be outside the National Guard's duty to bargain. *See, for example, National Federation of Federal Employees, Local 1724 and Utah National Guard, Salt Lake City, Utah,* 7 FLRA 732. Furthermore, to my knowledge, there has never been a contention in a case before the Authority that technicians, in their civilian capacity, are excluded from the coverage of the statute by operation of title 10, section 976(c)(2).

Question. National Guard authorities of several States have argued in negotiability cases before the Authority that they have a compelling need for National Guard bureau and Army and Air Force uniform regulations for National Guard technicians in order to accomplish their military mission. Are these military regulations made applicable to the National Guard technicians by 32 U.S.C. 709(a) of the Technician Act and thus exempt from the collective bargaining requirements of the labor-Management Act, 5 U.S.C. section 7117?

Answer. In *Nevada, supra,* the Authority, in pertinent part, rejected a contention that negotiations over technician attire were barred by an agency regulation for which a compelling need existed. Relying on that decision, the Authority decided *Division of Military and Naval Affairs, State of New York, Albany, New York,* 8 FLRA 158. That case is currently before the Authority on a remand by the U.S. Court of Appeals for the Second Circuit "to develop a full record appropriate for judicial review as to whether the attire the technicians should wear while engaged in their daily duties as civilians is a nonnegotiable matter under section 7106(b)," which concerns management's statutory right under the statute to decline to bargain on the methods of means of performing work.

Question. Does the Administrative Procedures Act which prohibits administrative agencies from rulemaking or adjudicating in the "military * * * functions of the United States," 5 U.S.C. sections 553(a)(1) and 554(a)(4), prohibit the Authority from issuing compelling need decisions, unfair labor practice decisions, or enforcing impasse panel orders concerning Army and Air Force military functions of the United States?

Answer. To my knowledge, there has never been a contention in a case before the Authority that the Administrative Procedures Act, 5 U.S.C. sections 553(a)(1) and 554(a)(4) prohibits the Authority from issuing decisions concerning National Guard technicians in their civilian capacity.

Question. In the earlier testimony, Chairman Mahone testified that National Guard cases have been processed "on the basis that civilian technicians of the National Guard are no different than any other Federal employee and so many other changes in that regard really have to be left up to the Congress at this point in time." Doesn't this position ignore the fact that Congress granted special Federal employee status to technicians under their own statute with unique military requirements for their continued employment as technicians?

Answer. As discussed above, the Authority decides cases on the basis of the record before it. Thus, while the Authority has determined that technicians are "employees" for the purposes of collective bargaining, it has, nonetheless, taken full account of National Guard arguments relating to the special circumstances of their employment relating to their dual military/civilian status. For example, in many of the cases involving National Guard technicians, there are contentions related to the military role of the technicians and such contentions are of course given serious consideration. For example, in *Association of Civilian Technicians, Pennsylvania State Council, and the Adjutant General, Department of Military Affairs, Commonwealth of Pennsylvania,* 3 FLRA 50, a proposal to establish a procedure for a technician to appeal from an appraisal of his military performance was ruled nonnegotiable as it concerned a matter in connection with military aspects of technician employment. In *American Federation of Government Employees, AFL-CIO, Local 2953 and National Guard Bureau, Office of the Adjutant General, Nebraska,* 7 FLRA 87, *affirmed,* No. 81-2384 (D.C. Cir. Mar. 30, 1984), a proposal that would preclude management from considering military performance in ranking technicians on a retention register for reduction in force purposes was ruled nonnegotiable because it conflicts with the National Guard Technicians Act of 1968.

Question. With regard to the statement "any other changes in that regard really have to be left up to the Congress at this point in time," what is the FLRA position concerning whether or not National Guard technicians should be excluded from the Labor-Management Service?

Answer. The Authority decides cases arising under the Federal Labor-Management Relations statute. Because of its adjudicatory role, the Authority refrains from commenting on the propriety of including or excluding specific groups of employees from coverage of the statute. However, it is clear that the problems created by the unique circumstances of the dual military/civilian status of the National Guard technicians have resulted in considerable litigation. Congress may wish to give attention to these problems, seeking out the views of the interested parties, particularly the employing agency and the labor organizations representing the technicians.

U.S. TAX COURT

STATEMENT OF HOWARD A. DAWSON, JR., CHIEF JUDGE

ACCOMPANIED BY:
CHARLES S. CASAZZA, CLERK OF THE COURT
WASHINGTON B. BOWIE, BUDGET AND ACCOUNTING OFFICER
D. BRUCE SMOKE, ASSISTANT BUDGET AND ACCOUNTING OFFICER

INTRODUCTION OF ASSOCIATES

Senator ABDNOR. Judge, it is a pleasure to have you with us today and if you want to, introduce the panel with you and proceed.

Again, I would urge you just to summarize. I know this is a very important group; I do not want to try to rush you here, but your whole statement will be made a part of the record.

Judge DAWSON. Thank you, Mr. Chairman. I do appreciate this opportunity to appear and to present our requests. I have with me today Mr. Charles Casazza, on my right, the Clerk of the Court, who helps me in administering the operation of the court; and on my left Mr. Washington Bowie, who is the Budget and Accounting Officer of the court.

PREPARED STATEMENT

Since you have indicated that our estimates and statements will be made a part of the record, I will, with your permission, Mr Chairman, summarize the highlights of our requests and indicate some of the initiatives taken by the court this past year and to tell you as briefly as I can what I think the future holds in store and where I think the Tax Court is headed in handling the massive litigation that is confronting it today.

[The statement follows:]

STATEMENT OF HOWARD A. DAWSON, JR.

Mr. Chairman and members of the committee, I appreciate the opportunity to appear before you and present for your consideration the appropriation requests for the United States Tax Court for the fiscal year 1984 supplemental and the fiscal year 1985.

First, I would like to summarize our fiscal year 1984 supplemental request.

FISCAL YEAR 1984 SUPPLEMENTAL REQUEST

The Tax Court is requesting a supplemental appropriation for fiscal year 1984 in the amount of $400,000. These funds are needed to cover the salary and related benefits for ten additional employees and for the purchase of necessary hardware and software required to implement the automation of a case processing and tracking system.

In July 1983, the Court began a project to formulate comprehensive data processing strategy for the operations managed by the Clerk of the Court. This project has three phases. Phase One, completed in September, focused on determining what automated capabilities would be most beneficial to the Court. Phase Two focused on selecting the most cost-effective configuration of hardware and software to meet the Court's needs, estimating the cost of providing these capabilities and formulating a comprehensive implementation plan. The Court is now ready to begin Phase Three of the study which involves consideration of hardware, software, and the employment of additional staff to implement the installation, operation and necessary software revisions and training.

An automated case processing system should be beneficial to the Court because the introduction of automation would allow it to streamline its operations, thus reducing the number of steps in processing cases, eliminating redundant data capture, and providing more rapid access to data on cases. Some of the benefits to be realized from such a system, as cited by the study made by American Management Systems, Inc., include increased efficiency in handling Court operations, cost savings in overtime and employee salaries, and the ability to handle an increasing workload.

Such a system will constitute the core of all the Court's future data processing capabilities and has been evaluated with that in mind. The most critical element of the initial configuration is the software for case processing. Since the case processing requirements of the Court can be met more quickly and at less cost if software of another court or commercial vendor can be used, an extensive search of candidates was conducted, including more than 75 systems. The software recommended appears to provide most of the functional capabilities for case processing and can be modified to accommodate the Court's unique needs at a cost of less than one-third of most other alternatives.

This supplemental of $400,000 will allow the Court to proceed with Phase Three of the study. The necessary personnel required include a project manager, computer specialist, programmers and operators. The project manager will oversee all implementation schedules, installation of hardware, and any necessary revisions to the software. At the present time the Court does not have any employees with the necessary expertise to oversee this complex operation.

No-year funds are requested because of the complexities involved with this necessary and important project. The Court does not believe that the procurement and installation of the equipment could be completed by the end of September 1984 if funds are appropriated for only one year. Procurement of the equipment is estimated to take from four to five months, and the testing of hardware and software will take approximately four months.

This supplemental request provides $100,000 to finance the salaries and benefits for ten positions, $150,000 to purchase the necessary hardware, $75,000 to cover the cost for the case processing software, and $75,000 to provide for all modifications to the software, site preparation, and testing of the hardware and software.

Next, I would like to direct your attention to the Court's fiscal year 1985 budget request.

FISCAL YEAR 1985 BUDGET REQUEST

The Tax Court's fiscal year 1985 budget request is for $22,344,000 and 320 permanent positions. This amount represents an increase of $6,779,000 over 1984, including the $400,000 civilian pay raise supplemental now pending before Congress. It also contains 37 new positions.

The Court's fiscal year 1985 budget reflects our best judgment as to the Court's needs for handling our pending caseload. I will summarize the increases for you. Further justification for the specific items are contained in our budget submission.

NEW REQUIREMENTS

The Court is requesting $2,778,000 in new requirements. This amount includes the salaries and benefits for 37 new positions along with the necessary costs of travel, transportation, court reporting, communications and contract services. The number of employees of the Court would increase 13.5% over fiscal year 1984 while the case filings are projected to increase by 25%.

The Court is also proposing a summer term during the fiscal year 1985 along with additional special trial sessions for tax shelter and "tax protester" cases. The assignment on an experimental basis of one or more special trial judges to the Los Angeles area is also being proposed. In addition, the Court is negotiating with the GSA for additional office space in Washington, D.C. to relocate its special trial judges.

PAY ADJUSTMENTS

During the fiscal year 1985, $60,000 will be required to finance promotions and within-grade salary increases for employees who will be eligible for advancement to the next step in salary.

OTHER COST ADJUSTMENTS

The Court will need $2,839,000 to cover other cost adjustments for the fiscal year 1985. This amount includes $1,479,000 for annualization to allow the Court to continue activities and staffing levels approved in prior years. Inflation will require an additional $217,000, and the GSA rent charges are being increased by $1,143,000 for the fiscal year 1985.

ONE-TIME ADJUSTMENTS

The Court is requesting an additional $1,102,000 to cover proposed one-time cost items. These items include new carpeting and its installation for the Washington, D.C.

courthouse, new furniture for the proposed Los Angeles and Washington, D.C. office space for the special trial judges, along with the required new equipment and books for the new space, and additional word processing equipment.

THE COURT'S WORKLOAD

Any discussion of the Court's workload should emphasize that at the present time the Tax Court handles approximately 90% of all substantive tax litigation, exclusive of collection actions, in the Federal courts. It is the only Court where a taxpayer can litigate his case without prior payment of the determined tax deficiency. Proceedings in the Tax Court are begun by filing a petition after the taxpayer has been sent a deficiency notice by the Commissioner of Internal Revenue. The deficiency notice procedure is one over which the Tax Court has no control. As the number of deficiency notices increase the Court's docketed cases will also increase.

In the fiscal year 1970, 7,390 new cases were filed. In the fiscal year 1975, the number of new cases filed was 11,213. In the fiscal year 1983, 34,221 new cases were filed. Thus, over the past thirteen years the number of new cases has more than quadrupled, and in the last eight years it has tripled. The inventory of pending cases rose from 12,040 at the end of the fiscal year 1970 to 16,448 at the end of 1975, which was a 37% increase. At the end of the fiscal year 1983, the inventory of pending cases stood at 58,333, a 350% increase, or more than three times the pending caseload in 1975.

For the fiscal year 1983, the increase in new cases filed was 11% more than in the fiscal year 1982.

For the fiscal year 1982, the gap between the number of petitions filed and number of cases closed was 6,572. For the fiscal year 1983, the gap was narrowed to 5,276.

For the first quarter of the fiscal year 1984, the Court closed about 400 more cases than the number of petitions filed. This decrease in the gap between filings and closings was attributable primarily to the effective handling of small tax cases.

The pending case backlog consists mostly of recently filed cases. About 80% of the regular cases which are tried are disposed of within 18 months from the date of trial. This period does not include the time for filing briefs, which usually takes from 4 to 6 months. By contrast, about 98% of the small tax cases which are tried are disposed of within 9 months from the date of trial and 78% of them are decided within 6 months. This time lag should be substantially reduced in the future because of the use of bench opinions in appropriate cases. Cases generally go to trial only when both parties indicate they are ready. In the meantime the judges are actively trying to get the parties to settle before the trial date.

THE COURT'S WORK PRODUCTION

In a continuing effort to decrease the backlog of pending cases, the Court as a whole has increased its productivity. The number of opinions written by the Court rose from 573 in 1970 to 796 in 1975 to 2,524 in 1983. The number of cases closed by the Court increased from 6,610 in the fiscal year 1970 to 8,616 in the fiscal year 1975, and to 28,945 in the fiscal year 1983. To a large degree the increase in the number of cases closed reflects what appears to be a more flexible settlement policy of the Internal Revenue Service.

Of the 796 opinions written in the fiscal year 1975, 271 were written in the small tax cases and 525 in regular cases. Of the 1,979 opinions written in the fiscal year

1983, 1,048 were written in small tax cases and 931 in regular cases.

SMALL TAX CASE PROCEDURES

Under the small tax case procedures, which are optional with the taxpayer, trials are conducted in an informal and prompt manner. The rules of evidence are relaxed; neither party is required to file a brief; and neither party may appeal. The jurisdictional limit for the small tax cases is now $5,000 for each taxable year. H.R. 4170, now before the House of Representatives would increase the jurisdictional amount to $10,000.

The Court currently has thirteen special trial judges assigned to handle the small tax case work. They are also assigned certain types of regular cases, but in such cases their findings and opinions are reviewed and adopted or modified by a Presidentially appointed judge.

The number of cases in which the small tax case election has been made has increased steadily since the provisions became law. In the fiscal year 1971, 1,349 small tax cases were filed; in the fiscal year 1975, 3,290 small tax cases were filed; and in the fiscal year 1983, 9,826 small tax cases were filed.

The small tax case procedures, as conceived by Congress, contemplated that the cases would be heard and disposed of promptly. Expeditious handling of these small tax cases helps maintain confidence in the efficiency and fairness of the revenue and judicial systems. Delays not only tend to undermine such confidence but defer the availability to the Treasury of the revenue ultimately found to be owed. This is also true with respect to regular cases.

ACTIONS TO REDUCE BACKLOG

The budget justification for the fiscal year 1985 lists what Congress and the Court have done to alleviate the pending caseload. For the fiscal year 1985 the Court also proposes to add 35 additional trial weeks for a summer term; increase the number of special trial sessions for tax shelter and "tax protester" cases; increase the number of special trial judges from 14 to 17; station one or more special trial judges in California to improve the judicial services in that area; and purchase additional word processing equipment to speed the opinion process.

CONCLUSION

During the fiscal year 1983, the amount of deficiencies ultimately determined by the Court to be owing by taxpayers was $405,319,970, or about 18 times the amount of our fiscal 1985 budget request. The 58,333 cases pending in the Tax Court at the end of fiscal year 1983 involved deficiencies determined by the Internal Revenue Service in the total amount of $10,189,721,000. To the extent of taxes owed, the revenue ultimately involved in these cases cannot be collected until they have been heard and decided or otherwise disposed of. Delays in closing these cases deprive the Treasury of revenues which are due. To the extent that the determined tax liabilities are not in fact owed, they create financial uncertainties for corporations, businessmen, and individuals in making business, investment, and other decisions.

Since the fiscal year 1977 the Court's budget has increased 208% (including amounts received because of inflation) and the personnel levels have increased by 59%. The estimated number of cases filed since 1977 has increased 338% and the estimated number of cases closed has increased over 368%. Thus, the productivity of the existing personnel has increased tremendously over the past few years.

The Tax Court generates funds for the United States Treasury. Without additional funds and employees the Court will not be able to maintain its level of productivity. The fiscal year 1985 could very well be a very critical one for the Court. We must continue our determined effort to narrow the gap between the cases closed and the cases filed. The Court must have adequate funds, resources, and automation to cope with the pending caseload and meet future challenges. The Commissioner has notified the Court that the Internal Revenue Service has thousands of proposed deficiencies in audit process concerning tax shelters and tax protesters. Unlike many other Government agencies with multiple programs, the Tax Court has only one program--the judicial handling of Federal tax cases. Whenever funds are decreased, the only area in which the Court has any flexibility is to reduce the amount of travel it does to hear cases. If the Tax Court does not travel and hold trial sessions, the caseload will continue to increase and the funds will not become available to the Treasury.

Attached to this statement is a table that shows that for every dollar appropriated to the Tax Court for the fiscal year 1983, the Court returned $28 to the Treasury. Each Court employee generated almost $1,500,000 for the Treasury during the same time period.

Mr. Chairman, that concludes my statement. I will be pleased to answer any questions the Committee may have.

UNITED STATES TAX COURT

AMOUNT OF FUNDS RETURNED TO TREASURY OR GENERATED BY COURT EMPLOYEES

FISCAL YEAR	AMOUNT REDETERMINED ON CASES CLOSED	BUDGET AUTHORITY	FOR EACH $ BA, TAX COURT RETURNS TO TREASURY:	NUMBER OF EMPLOYEES	FOR EACH EMP TAX COURT RETURNS TO TREASURY
1977	$188,452,800	$ 7,254,000	$26	201	$ 937,576
1978	$199,002,070	$ 8,188,000	$24	201	$ 990,060
1979	$190,547,390	$ 8,803,000	$22	209	$ 911,710
1980	$228,887,580	$ 9,751,000	$24	215	$1,064,593
1981	$228,061,960	$11,094,000	$21	226	$1,009,123
1982	$318,313,860	$12,471,000	$26	258	$1,233,775
1983	$405,319,970	$14,517,000	$28	271	$1,495,646

SUPPLEMENTAL REQUEST

Judge DAWSON. First, let me direct your attention to our supplemental request of $400,000 for 1984, which is needed to purchase hardware and software for an automated case processing and tracking system. Such a system will help our clerk's office in processing the massive paperwork and the recording of pertinent data on our docket cards and other court records.

It will also aid us in calendaring cases for trial and for various statistical purposes. It is becoming more difficult to do all of this, which we have done in the past, by manual operations. As a result of a recommendation made to us by the General Accounting Office, it was suggested that we begin automation through computerization of case documents and the use of word processing.

I might say that the court has been rather conservative and slow to change, but I do believe the time has come when we must change in order to improve the efficiency and effectiveness of our operations.

To carry out the recommendation of the General Accounting Office and to achieve our objective, the court contracted in July 1983 with American Management Systems for a study and design of an automated case processing system. We emphasized that we wanted a system that would be easy to operate and maintain; one that could be expanded to accommodate growth in our caseload; and one that could be procured from reputable vendors who had strong track records.

We were primarily interested in a system that we could manage internally rather than through timesharing services. We have now reached the phase of that study where we need to acquire the necessary hardware and software and proceed with the automation of the case processing system.

For hardware, it has been recommended that we need a minicomputer, microcomputer, terminals, and printers. We need to purchase software, which is the architecture of the system. We need funds for a project manager and computer specialist as well as programmers and operators. And we need funds for the site preparation of the minicomputer room, which has to be air-conditioned and specially equipped.

The funds we are asking for will also be used for testing the hardware and the software and for the training of personnel to operate the system. Therefore, Mr. Chairman, I respectfully urge that the committee approve our request for supplemental funds so that we may begin this modernization.

Senator ABDNOR. How far will that take you, that supplemental? Will that do what you need?

Judge DAWSON. Yes, sir. We think it will. We will have to operate a manual system as well as the automated system simultaneously until we can get everything into the system.

Senator ABDNOR. How long will that take?

Judge DAWSON.The management study indicates that this will take probably 12 or 13 months, maybe a little longer.

Senator ABDNOR. Will you need more equipment as you go along?

Judge DAWSON. We do not think so. We think this equipment will be adequate. In subsequent years we will require about $300,000 per year to operate the system. That is the closest estimate we have at the present time.

Senator ABDNOR. Well, I know your caseload—I know you are required to do more and more, cover more and more ground, and this will be a big help, I am sure.

Judge DAWSON. Well, we think it will improve our efficiency and help us with our enormous caseload. If you do not have any questions regarding this particular matter, Mr. Chairman, I will move on to the court's budget request for the fiscal year 1985.

Senator ABDNOR. Go right ahead.

FISCAL YEAR 1985 BUDGET REQUEST

Judge DAWSON. This request is for $22,344,000 and 320 permanent positions on the court. The largest portion of the requested increase is for salaries and benefit costs for additional personnel. We expect two of our judges to retire during the next fiscal year. Those judges will have to be replaced as well as their staffs, which consist of two law clerks and two secretaries. We are also requesting three additional special trial judges and their staffs. As you are aware, Mr. Chairman, they handle nearly all the small tax cases as well as virtually all of the cases where the amount of deficiency is less than $5,000. They each have a law clerk and a secretary. The request also includes six word processing clerks and 12 positions in the clerk's office, which are divided among the admissions, appellate, calendar, and docket sections and for extra trial clerks who go out with the judges and serve as their assistants during the trial sessions.

We are also quite anxious to begin in the fiscal year 1985 holding trial sessions during the summer months. As you know, Mr. Chairman, we have had fall, winter, and spring terms for many years, but as I have indicated to you and to Mr. Parkinson previously, we think we ought to begin holding summer trial sessions. We are proposing to add about 35 additional weeks during the months of July, August, and early September in 1985. That will require $455,000 to finance and there will be additional travel costs connected with that matter.

Senator ABDNOR. Do we have that built in the 1985?

Mr. DAWSON. Yes, we do. I wanted to do that this summer, but in view of the restricted funds that we have this fiscal year, it just cannot be carried out. But if by the month of May we have sufficient travel funds, we do plan to have some small tax case sessions, particularly in the State of California because about 30 percent of the entire workload of the court is in California at the present time, an enormous concentration of cases there.

Senator ABDNOR. Why do you think that is?

Judge DAWSON. Primarily because of the large number of taxpayers and increased audits there.

Now, there is a large item in our request for higher rental payments to GSA. There is $724,000 for our courthouse here in increased rental payments, and a $312,000 increase for our field courtrooms which we maintain in 31 cities throughout the United States.

We are also requesting additional rental money to relocate our special trial judges. We have filled our building here and we have asked GSA to get us approximately 21,000 square feet of additional space so that we can move the special trial judges into a location near where we are located now.

I have kept Mr. Parkinson informed about this and with his assistance and the assistance of Mr. Gunnels on the House side and GSA, we are working toward that objective.

INITIATIVES TO INCREASE PRODUCTIVITY

I thought, Mr. Chairman, that you would be interested in some of the initiatives the court has taken to improve its productivity and the quality of its services during the past year and particularly since I took over as Chief Judge on the first of July.

Over the past 5 years the Tax Court has been confronted with a very dramatic increase in its caseload. We have seen the number of cases filed in 1 year increase from 17,000 in 1979 to 34,000 in 1983. We have doubled our efforts and we have increased the number of cases closed from 13,000 in 1979 to almost 29,000 in 1983. But there is still a gap that exists between the filings and the closings and we are trying to narrow that gap.

During the past year we have added four new special trial judges, two women and two men from different parts of the country.

We began using for the first time bench opinions to speed up the disposition of cases that are in the adjudication process. The statute which authorized bench opinions did not become effective until March 1, 1983. To date the judges have rendered approximately 240 oral opinions from the bench in various cases. I think we will see a constant increase, particularly with respect to small tax cases as we go along.

Third, we expanded our summary procedures for the disposition of tax protester cases. The clerk tells me that approximately 6,000 to 7,000 cases now pending in the court are so-called tax protester cases. They frequently raise what we consider frivolous, groundless, or meritless arguments. Many of these cases have been assigned to the special trial judges and many of them are disposed of through summary procedures.

Congress gave us the authority last year to impose higher damages against petitioners who bring cases to the court primarily for delay or where they maintain frivolous or groundless claims. We used to be authorized to impose damages up to $500, but Congress increased that amount to $5,000. There have been some cases in which we have gone well above $500. The first published opinion in which we have imposed $5,000 was filed last Thursday in what we considered to be a very flagrant situation.

We are also continuing to send our judges back to the same cities, that is, major cities like New York, Chicago, Philadelphia, and Cleveland, on calendars back-to-back because it reduces the number of continuances and the judge keeps after the parties to move the litigation.

We have increased the number of regular and special trial sessions this past year and we have substantially increased the number of cases and estimated trial hours that are included on these sessions. It used to be that we would put 250 to 300 estimated trial hours on a 2-week trial session. Now we are running that figure up to 500, 600, sometimes more hours to make better use of available trial time.

We have obtained second courtrooms in the two California cities of San Francisco and Los Angeles so that we can have more trial sessions out there and attack the concentration of the workload which is in the State of California.

We have recommended legislation to the tax writing committees of Congress to increase the jurisdictional limits in small tax cases from $5,000 to $10,000. There is a provision for that in a House bill now, H.R. 4170. As I have indicated before, our special trial judges hear virtually all of those small tax cases as well as most of the regular cases that are under $5,000 in amount. That constitutes approximately 38 to 40 percent of the workload of the court.

I have mentioned to you that we are interested in having summer trial sessions. We are also considering at the present time stationing one or more special trial judges in the State of California on an experimental basis to see if we can improve our judicial services in that State by having the special trial judges present there full-time.

The court has also changed its procedures for handling cases reported as settled at trial sessions but where the decision documents are not required to be filed until a later date. What we discovered was that too many cases were not actually settled and were being restored to the general docket for trial. In other words, there was a recycling of cases, and we are trying to eliminate this by tightening our procedures and requiring the parties to file the agreed decisions where possible at the trial sessions and we are also providing that the judges will retain jurisdiction over those cases that are reported as settled in order to get the decision documents filed with the court.

And, finally, in the largest and most troublesome and time consuming cases that we have, the tax shelter cases, we have attempted to identify more and more groups so that early assignments of these cases can be made to judges. These usually come in very large groups, 700, 800, or 1,000 cases in a particular shelter.

I have no doubt that this should result in better judicial case management and the ultimate disposition of these cases. It is significant, I think, that we have issued a substantial number of precedent opinions in tax shelter cases this past year, which should help us in disposing of more cases.

But, Mr. Chairman, with the present complexity of the tax laws and the general dissatisfaction of the taxpaying public, which in some instances indicates that the public perceives the laws to be inequitable and unfair in certain respects, I cannot foresee any reduction in tax litigation.

We have no control over what we get. It depends primarily on how many deficiency notices are issued by the Commissioner of Internal Revenue. We receive a proportionate share of those cases

But I do think that our judges are working hard. We are trying to do a good, conscientious job. However, if we are to continue to fulfill our mission of providing adequate and prompt judicial services in these Federal tax cases, I think we will need additional resources, the money and personnel we are requesting, and I hope the committee will see fit to approve our requests.

I would be very pleased to answer any questions.

ESTIMATED WORKLOAD

Senator ABDNOR. Thank you, Judge Dawson, for the fine testimony. We think you are doing a fine job and we are going to do whatever we can to help that supplemental move along and also your budget.

We know the caseload is not going to get any lighter. I guess it keeps growing every year. What are your projections for the future? Can you make a guess as to what the workload is going to be?

Judge DAWSON. Yes; based on the past 8 years, it has been increasing almost at the rate of 25 percent per year.

Senator ABDNOR. Twenty-five percent?

Judge DAWSON. Almost.

Senator ABDNOR. Is that right?

Judge DAWSON. Over the past 10 or 15 years, if we go back that far, we were getting 7,000 or 8,000 cases. Last year, by contrast, we received about 34,000 cases and closed 29,000.

So far this year we are about 400 to 500 cases ahead in our closings than we are in receipts. But this is the early part of the year and the big crunch usually comes in June, July, and August following the 90-day period after the Internal Revenue Service issues a substantially higher number of deficiency notices.

Senator ABDNOR. They are putting more and more people in the field to look for problems and so I do not see anything that is going to make your load any lighter.

Judge DAWSON. No, sir, we do not think so either.

INCREASED NUMBER OF JUDGES

Senator ABDNOR. How about the numbers of judges, are they increasing by that percent?

Judge DAWSON. No; not nearly as fast as the caseload. Congress authorized an increase in the number of regular judges from 16 to 19 about 3 years ago. We presently have 17 regular judges. The President has nominated Mr. Julian Jacobs of Baltimore, Md., to fill the 18th position and his nomination is before the Senate Finance Committee at the present time. It is my understanding that the White House is working on the appointment of a 19th judge.

Senator ABDNOR. And you need a special trial judge, do you, too?

Judge DAWSON. Yes, we do; we have 13 special trial judges now. There is one vacancy and that may be filled within the new few months.

SHELTER AND TAX PROTESTER CASES

Senator ABDNOR. Well, the IRS is placing more emphasis on shelters and tax protesters, and those are difficult cases for you, I am sure.

Judge DAWSON. Particularly the tax shelters.

Senator ABDNOR. They help to add to that caseload, I expect.

Judge DAWSON. Yes, sir, very much so.

FRIVOLOUS CASES

Senator ABDNOR. Do you get a lot of what we call the frivolous type cases? Do you have many of those?

Judge DAWSON. I would say that most of those are the tax protester cases, and they probably run between 6,000 and 7,000 cases on our docket.

For example, Mr. Chairman, a petitioner or a taxpayer will say that wages are not income. Now, that has been settled a long, long time ago. I know that I pay taxes on my wages and you do too.

Senator ABDNOR. But you are going to keep getting them. I suppose you have to pay due attention to them.

Judge DAWSON. Yes, we do, because those petitioners are entitled to their day in court, just like everybody else.

LITIGATION COSTS

Senator ABDNOR. Taxpayers who prevail in litigation will be awarded costs in the future. Now, how is this going to affect the court?

Judge DAWSON. Thus far we have not received any cases where we have had to determine the amount of legal fees or litigation costs. There have been two or three instances where the parties have agreed on the figure and decisions have been entered.

We think it will increase the workload of the court to some extent, but we do not know how much. We will probably have a better reading on it after another year.

Senator ABDNOR. You can ask for that next year.

Judge DAWSON. All right. We will be ready.

ASSIGNING JUDGES IN CALIFORNIA

Senator ABDNOR. You are placing additional judges in California on a permanent basis. I think you said 30 percent of the——

Judge DAWSON. Yes; we plan to do that at the beginning of the fiscal year 1985. We do not have the funds to do it during the present fiscal year, but next fall we fully expect to do it.

CALIFORNIA CASELOAD

Senator ABDNOR. Well, that is quite—with 30 percent of the cases originating in California, I would argue that is probably where they should go. Any reason for it being so high?

Judge DAWSON. Well, in part, it is the large population.

Senator ABDNOR. I realize that, but not 30 percent of the Nation.

Judge DAWSON. No; certainly not that. A lot depends on the audit activity of IRS out there and the attitude of the taxpaying public. And there are many tax shelters there.

ADDITIONAL OFFICE SPACE

Senator ABDNOR. How are you going to do for room for these new judges? Are you not crowded for facilities and space?

Judge DAWSON. Yes; we are definitely crowded. We are attempting to get some additional space outside of our courthouse here and close by so that we can move the special trial judges out and that will make way for the additional senior judges who will occupy the space.

One thing I think I should mention, Mr. Chairman, is that we have had a high turnover in the Tax Court because a lot of our older judges have retired in the past few years, and President Reagan has appointed seven judges to the court previously and there are two more pending.

OPINIONS IN PETITIONERS FAVOR

Senator ABDNOR. Let me ask you, in how many cases do you find in favor of the taxpayer?

Judge DAWSON. Well, we do not keep precise figures——

Senator ABDNOR. Well, is it quite a few?

Judge DAWSON. Yes; there are quite a few, but we do have information with respect to the rate of recovery by the Government. Last fiscal year, 1983, approximately 29.2 percent was the rate of recovery by the Government.

If you put it in terms of dollars, the Commissioner of Internal Revenue determined approximately $1,380,000,000 in deficiencies and yet the final amount redetermined, that is, decided by the court or decided through the settlement process, was only $405 million and that is how you get to that percentage of recovery figure.

Senator ABDNOR. Do you think that we have too many cases coming in, that something should or could be done to reduce that? What is that, two out of three, then, are usually found not guilty?

Judge DAWSON. We do not hear any criminal cases. These are all civil cases. But I do not think you can measure it precisely that way. The service has obviously, through its audit process, set up some deficiencies which are not sustainable and they are reduced after the cases are tried or they are reduced in the settlement process.

TIMEFRAME FOR SMALL TAX CASES

Senator ABDNOR. One last question: What is the timeframe for a small tax case?

Judge DAWSON. The timeframe, how long does it take?

Senator ABDNOR. Yes.

Judge DAWSON. Normally, most of the opinions in the small tax cases are issued within 4 months from the time of trial, practically all of them. Now, that process will speed up as a result of the bench opinions because the special trial judges this current fiscal year are rendering bench opinions in a higher percentage of the small tax cases. And, of course, they are given right after the trial.

Senator ABDNOR. Well, that is good. Well, thank you, gentlemen. We appreciate your attendance today.

APPRECIATION OF MR. PARKINSON

Judge DAWSON. Thank you, Mr. Chairman. If I may say one other thing, I would like to express my appreciation to Mr. Charles Parkinson, your staff director. He has been most helpful and supportive.

Senator ABDNOR. I am happy to hear that. That is what he is here for. Thank you very much.

Judge DAWSON. Thank you.

ADMINISTRATIVE CONFERENCE OF THE UNITED STATES

STATEMENT OF LOREN A. SMITH, CHAIRMAN

ACCOMPANIED BY:

STEPHEN L. BABCOCK, EXECUTIVE DIRECTOR
RICHARD K. BERG, GENERAL COUNSEL
JEFFREY S. LUBBERS, RESEARCH DIRECTOR

OPENING STATEMENT

Senator ABDNOR. Our next witness will be Mr. Loren Smith who is Chairman of the Administrative Conference of the United States.

Mr. Smith, we certainly welcome you to the committee today, and would you care to introduce your panel. I can tell you like I did the others that your entire statement will all be made a part of the record. I ask you to proceed.

Mr. SMITH. Thank you very much, Senator. My former residence in South Dakota, when I worked on Bob Hirsch's Senate campaign, makes me feel at home here, and also because of your very good staff. We have had an excellent working relationship with Chuck Parkinson and Dorothy Pastis and Bob Mills, and also with Dick Ribbentrop of Senator Mattingly's staff.

Senator ABDNOR. That is good to hear.

Mr. SMITH. The conference is somewhat unique in Government in that we are set up to provide support and advice to both the executive branch—to the President directly and to the agencies of the executive branch—and to the Congress.

Let me introduce the staff of the Administrative Conferenece who are here with me. To my left is Steve Babcock, who is the Executive Director and Chief of Staff of the Administrative Conference. To my immediate right is Dick Berg, who is the General Counsel and Executive Secretary of the Administrative Conference. And to Dick's right is Jeff Lubbers, who is the Research Director of the Administrative Conference. So we have five titles and three individuals. We are getting full use out of our people.

Senator ABDNOR. Good efficiency.

Mr. SMITH. The conference is here testifying in support of OMB's request for fiscal 1985 funding of $1.468 million, which is a 4.4-percent increase over OMB's request for fiscal 1984 of $1.406 million. And we are also here testifying in support of OMB's request for a $23,000 pay raise supplemental.

PREPARED STATEMENT

I will not go over the testimony. As you have noted, it will be inserted in the record.

[The statement follows:]

STATEMENT OF LOREN A. SMITH

My name is Loren A. Smith, and I am the Chairman of the Administrative Conference of the United States. I am accompanied here today by Stephen L. Babcock, the Executive Director of the Conference, by Richard K. Berg, our General Counsel, and by Jeffrey S. Lubbers, our Research Director. I am pleased to have this opportunity to appear before you today in support of the President's fiscal year 1985 budget request, in the amount of $1,468,000, for the Administrative Conference. The President has also proposed a fiscal year 1984 pay raise supplemental for the Conference in the amount of $23,000, which I also hope you will approve.

The Administrative Conference is the government's expert advisory body on questions of administrative procedure and process. The 90 volunteer members of the Conference—fifty of whom are representatives from the various departments and agencies, and 40 of whom are practicing attorneys, academics, and others from the private sector—develop the formal recommendations that are the Conference's main business. During the year since we last appeared before you, the Conference has adopted four new recommendations. The first, entitled, "The Certification Requirement in the Contract Disputes Act," suggests amendments to that Act to resolve certain very costly problems in litigation under it. "The 'Good Cause' Exemption from APA Rulemaking requirements," our second recommendation, advises agencies to allow the public to submit post-promulgation comments when the agency has used the exemption to omit notice and comment prior to adopting rules. Our third recommendation, "Agency structures for review of decisions of presiding officers under the Administrative Procedure Act," urges Congress to allow agencies sufficient flexibility to establish review systems to suit varying program needs. Finally, our recommendation entitled "The use of the Freedom of Information Act for Discovery Purposes," suggests amending FOIA to require attorneys using FOIA as a discovery device to notify government counsel when doing so. The Conference, during the year, also adopted two formal statements, one consisting of guidelines for use by agencies in determining the appropriate level of policy articulation, and a second on the use of exceptions processes to formulate agency policy. Our members can be pleased with their accomplishments during this period, as these recommendations and statements represent a great deal of solid work, and stand to be of considerable benefit to the administrative process and hence to the government as a whole.

A principal part of the efforts of the Office of the Chairman—which is how our statute refers to me and the Conference's staff of nineteen persons—has been in support of the work of our volunteer members that led to the adoption of the recommendations I have described. And other research projects, listed in Part A of Appendix I to this testimony, are now underway. The Office, however, has also been engaged in a number of other activities, which can generally be grouped under the headings of "implementation and advisory activities," "clearinghouse activities" and "special projects."

Under the first heading, we have prepared and delivered testimony on eleven occassions before committees and subcommittees of the Congress—mostly in the Judiciary Committees' areas of interest. Testimony has been given on the omnibus regulatory reform bills, on legislative veto (on which subject I testified most recently last Friday), on the administrative law judge "central corps" bill, and even on legislation concerning the effects of Agent Orange on Viet Nam veterans—in the latter case on special rulemaking procedures that that legislation would provide. And, of course, we have testified twice on the Equal Access to Justice Act, as well as having prepared our annual report to Congress (copy attached as Appendix II), which that Act requires.

We have also testified on, and worked with concerned members of Congress and staff on, our 1982 recommendation on "the race to the courthouse" and our 1983 work on the Contract Disputes Act. In addition, we have worked with DOT, EPA and OSHA in connection with their efforts to implement our 1982 "regulatory negotiation" recommendation, and with numerous other agencies on other past recommendations.

In the second category of activities, "clearinghouse, " we have been equally busy. I am pleased to report that I have continued to sit on the President's Cabinet Councils on Legal Policy and on Management and Administration during the year. I hope that the unique perspective—that of an expert advisory body, but one within the Administration—of the Conference has contributed to the deliberations of both bodies. My activities have required some staff support, of course, particularly with respect to the Cabinet Council on Management and Administration, where my staff headed an interagency task team working on one issue.

The Council of Independent Regulatory Agencies and the Agency Management Information Group—two informal bodies that I head, also occupied our attention, as did the Regulatory Colloquia—a series of monthly lectures on topics of regulatory importance that we sponsor with the financial support of several departments and agencies.

In the third category of our activities, special projects, I want to mention one staff accomplishment of which I am especially proud. Led by senior staff attorney Michael W. Bowers, our staff worked on and completed during the year a Guide to Federal Agency Rulemaking—a 300 page work that has proved very popular. I have included a copy of it with our budget materials for your review.

Turning to fiscal 1985, we propose essentially to continue our present level of activites, with one important exception. Our present level of funding does not allow sufficient funds for research. As you can see from the list of research projects in Appendix I, we do have projects underway at present. However, we need sufficient funds to commission new research, so that the "pipeline" will continue to yield useful results two years hence. It is vital to the continued vitality of the Conference that we receive all of the requested figure, and I hope that this Subcommittee will conclude that the Conference continues to be a cost-effective organization, and thus warrants your support.

Thank you very much for allowing us to appear before you. We will be happy to answer any questions that you may have.

REPORT OF THE CHAIRMAN OF THE ADMINISTRATIVE CONFERENCE OF THE UNITED STATES ON AGENCY ACTIVITIES UNDER THE EQUAL ACCESS TO JUSTICE ACT

The Equal Access to Justice Act, Title II of Pub. L. 96-481, 94 Stat. 2325, directs the Chairman of the Administrative Conference of the United States ("ACUS") to report annually to Congress on the amount of attorney fees and expenses awarded under the Act to litigants who prevail against the United States in agency adjudications. 5 U.S.C. 5504(e). This is the second annual report of the Chairman under the Act, covering the period from October 1, 1982 though September 30, 1983.

Terms of the Equal Access to Justice Act

The Equal Access to Justice Act, which became effective October 1, 1981, provides for the award of fees and expenses to certain litigants who prevail against the United States in agency adjudications or civil court proceedings. Under the Act, a prevailing party is entitled to an award of reasonable attorney fees (ordinarily limited to $75 per hour) and other expenses unless the United States can show that its position in the litigation was substantially justified. A fee award may be reduced or denied when the party seeking it has caused undue delay, or when special circumstances would make an award unjust.

To qualify for an award, a party must meet the financial eligibility requirements of the statute, designed to target the Act's benefits toward those who would face significant financial obstacles in pursuing or defending litigation against the government. Eligible parties include sole proprietors, corporations, partnerships, and public or private organizations with a net worth of not more than $5 million and not more than 500 employees, tax-exempt organizations under 26 U.S.C. §501(c)(3) and agricultural cooperatives under 12 U.S.C. §1141j(a) with not more than 500 employees, regardless of net worth, and individuals with a net worth of not more than $1 million.

The provisions of the Act covering agency proceedings, codified in 5 U.S.C. §504, limit the applicability of the Act to formal hearing proceedings under Section 5 of the Administrative Procedure Act, 5 U.S.C. §554, in which the position of the United States is represented by counsel or otherwise, excluding ratemaking and licensing proceedings. The agencies themselves are to decide whether fee awards are warranted in particular cases, and the Act directs the agencies to establish uniform procedures for the consideration of applications for awards of fees and expenses after consultation with the Chairman of ACUS. 5 U.S.C. §504(c)(1). The Chairman's first annual report described ACUS' development of model agency rules for implementation of the Act and the agencies' adoption of their own rules; 32 agencies have now issued rules implementing the Act, almost all of which follow the ACUS model in substantial measure.

As noted above, the Act also directs the Chairman of ACUS to report annually to Congress on the amount of fees and expenses awarded in administrative proceedings under the Act, providing information about the individual awards and the proceedings in which they were made in order to help Congress evaluate the scope and impact of the Act. 5 U.S.C. §504(e).

Agency Activity Under the Equal Access to Justice Act

As in fiscal 1982, the level of activity under the Equal Access to Justice Act in administrative proceedings has remained low in fiscal 1983. Eighty-eight applications for attorney fees under the Act were filed in administrative proceedings during the year, while agencies completed over 10,000 proceedings falling within the Act's definition of adversary adjudications.[1] Agencies disposed of 61 applications for fees during the year, and another 91 remained pending (or stayed pending review of the underlying proceeding) as of September 30, 1983.[2] (Appendix I contains data on fee applications, by agency, for fiscal 1983; Appendix II contains the corresponding data for 1982.)

The National Labor Relations Board ("NLRB") continues to be the largest locus of EAJA activity at the administrative level. The NLRB received 52 of the 88 applications filed in fiscal 1983 and made 37 of the decisions. In addition, 47 applications are still pending at the NLRB. This high level of activity is consistent with the Board's high volume of covered cases decided — 5,059, or almost half the decided cases reported by all agencies in fiscal 1983. Not all agencies with high caseload levels have equivalently high levels of Equal Access to Justice Act activity, however; the Federal Mine Safety and Health Review Commission, for example, has received only one application for attorney fees since passage of the Act, although it concluded 1,461 covered proceedings in fiscal 1983.

Applicants received awards totalling $35,933.89 in eight proceedings. (See Appendix III for complete data on the awards.) Seven of these involved the Department of Labor: two proceedings before the Occupational Safety and Health Review Commission ("OSHRC") and five proceedings within the Labor Department, three involving audits of Comprehensive Employment and Training Act ("CETA") grantees, and two enforcement proceedings under the Farm Labor Contractor Registration Act. In both of the OSHRC cases, the Department negotiated settlements for amounts less than

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1/ As noted in last year's report, agencies have found it difficult to identify and tabulate all proceedings potentially covered by the Equal Access to Justice Act, and some agencies have not provided figures of this type. Thus this figure probably understates the actual volume of activity.

2/ These figures total more than 88 because many fee applications filed in fiscal 1982 remained pending at the beginning of fiscal 1983.

the total fee request, paying $6,800 of $9,741.64 requested by Ennis Automotive, Inc. and $1,375 of $1,659 requested by Fogel-Anderson Construction Company. In the three CETA cases, the Department chose not to contest the fee applications and paid the full amount of the award: $441.20 to Indian Development District of Arizona, $6,074.63 to Wisconsin Winnebego Business District, and $5,887.50 to New England Farmworkers Council, Inc. In one of these cases, the administrative law judge had stated that the grant officer's position leading to the litigation had been groundless. In another, the parties had settled most issues in the underlying litigation, but the Department stated its intent to pursue one interest claim. The Department did not follow up, however, and the claim was dismissed after the applicant had filed lengthy pleadings. The Labor Department contested the applications in the two Farm Labor Contractor Registration Act proceedings, but in each case the administrative law judge ruled without much discussion that the applicant was entitled to fees. Mary Ellen Bryant was awarded $698.60 (the entire amount of her request less $68.00 in expenses disallowed because they were not expressly enumerated in the Act) and David Ransome was awarded $1,040 (his entire request less $91 in disallowed expenses).

The other award was made by the National Transportation Safety Board against the Federal Aviation Administration. Catskill Airways, Inc. and one of its pilots were each awarded $6,808.44 in a case in which they had been charged with violations of minimum visibility rules for takeoff. The administrative law judge who heard the case found substantial justification for the FAA's position, but on review the NTSB disagreed. In the case of the pilot, the NTSB ruled that an investigator's assumption that visibility was inadequate, based on observations at a different part of the airport from the takeoff point, was insufficient to support the charge. As to the airline, the NTSB found that the FAA was unreasonable in proposing to limit the airline's authority to make its own weather observations and then presenting no evidence challenging its competence to make these observations.

Awards in four of the proceedings were made at the statutory maximum hourly rate of $75 per hour. In the Bryant and Ransome cases, the applicants requested and received $65.00 per hour for attorney fees. No hourly rate can be determined for the two settled cases.

Fifty-three applications for awards were denied by agencies, over half (28) because the agency's position was deemed to be substantially justified. Twenty-two of these decisions were made by the National Labor Relations Board, often on the grounds that the outcome of the underlying case turned on questions of witness credibility. NLRB opinions in these cases stress the principle that it is not the role of the General Counsel to resolve credibility questions before bringing a complaint unless the testimony of the complainant is patently unbelievable. Several other cases in which the government's position was found to be substantially justified, at the NLRB and elsewhere, involved close questions of law and interpretation of ambiguous precedents.

The next largest group of applications, seven in all, were dismissed because the applicants did not meet the Act's eligibility standards, or because they failed to provide sufficient evidence of their eligibility. Other applications were denied because the applicant did not prevail (five), because the case was not covered by the Act (four), because the application was not timely filed (four), or because proper jurisdiction was in an appellate court (three). One application was withdrawn before decision. (See Appendix IV for data on the reasons for denial of applications.)

APPENDIX I

Agency Action on Applications for [illegible] of Fees and Expenses Under the Equal Access to Justice Act in Administrative Proceedings
October 1, 1982 -- September 30, 1983

Agency	Total Covered Proceedings Decided1/	Applications Pending or Stayed on 9/30/82	Applications Received	Applications Granted	Applications Denied or Disposed of Without Award	Applications Pending or Stayed on 9/30/83
Department of Agriculture	245	1	0	0	1	0
Department of Commerce	200	0	1	0	0	1
Environmental Protection Agency	300	1	0	0	0	1
Federal Communications Commission	80	0	1	0	1	0
Federal Labor Relations Authority	13	0	1	0	0	1
Federal Mine Safety & Health Review Commission	1,461	0	1	0	0	1
Department of Health & Human Services	Not Available	3	2	0	1	4
Department of the Interior	248	8	2	0	3	7
Interstate Commerce Commission	2	0	1	0	0	1
Department of Labor	1,334	5	12	5	1	11
National Labor Relations Board	5,059	32	52	0	37	47
National Transportation Safety Board	Not Available	3	7	1	3	6
Nuclear Regulatory Commission	Not Available	1	0	0	0	1
Occupational Safety & Health Review Commission	1,235	6	5	2 (by settlement w/Labor Dept)	3	6
Postal Service	364	0	2	0	1	1
Securities & Exchange Commission	46	0	1	0	0	1
Department of Transportation	398	2	0	0	2	0
TOTAL: All Agencies	10,933 2/	64 3/	88	8	53	91

1/ These figures, where available, are approximate.

2/ An additional 278 covered proceedings were reported to ACUS by agencies that received no applications.

3/ This figure is [illegible] identical to the corresponding figure in last year's report. Sixteen applications pending at boards of contract appeals were dismissed when the United States Court of Appeals for the Federal Circuit decided, in Fidelity Construction Co. v. United States, 700 F.2d 1379 (Fed. Cir. 1983), that contract appeals boards lack authority to make awards under the Equal Access to Justice Act. A few other

Appendix II

Agencies Receiving Applications for Awards of Fees and Expenses Under the Equal Access to Justice Act in Administrative Proceedings
October 1, 1981 - September 30, 1982

Agency	Total Covered Proceedings Decided 1/	Total Applications Received	Applications Granted	Applications Denied or Disposed of Without Award	Applications Pending or Stayed on September 30, 1982
Department of Agriculture	255	2	0	1	1
Armed Services Board of Contract Appeals	not available	15	0	5 (3 withdrawn or dismissed w/o decision)	10
Department of Commerce	95	1	0	1	0
Environmental Protection Agency	34	2	0	1 (settled w/o award)	1
Federal Communications Commission	24	1	0	1	0
General Services Board of Contract Appeals	not available	6	0	0	6
Department of Health and Human Services	not available	2	0	0	2
Department of the Interior	553	5	0	1	4 2/
Department of Labor	154	2	0	1 (settled w/o award)	1
National Labor Relations Board	7,338	49	0	17	32 3/

Agency	Total Covered Proceedings Decided 1/	Total Applications Received	Applications Granted	Applications Denied or Disposed of Without Award	Applications Pending or Stayed on September 30, 1982
National Transportation Safety Board	127	5	0	2	3
Nuclear Regulatory Commission	not available	1	0	0	1 4/
Occupational Safety and Health Review Commission	2,485	8	0	2	6
Postal Service	127	1	0	0	1
Department of Transportation	497	2	0	0	2
Department of the Treasury	26	1	0	1 (withdrawn by counsel)	0
Totals All Agencies	11,715 5/	103	0	31	72

1/ These figures, where available, are approximate.

2/ These applications are stayed pending issuance of Interior Department rules for the processing of applications for awards. In the one case decided by the Interior Department, it was held that the proceeding concluded before October 1, 1981 and thus was not covered by the Act.

3/ Thirty of these applications are pending at the agency and two are stayed pending judicial review.

4/ This application is stayed pending a ruling from the General Accounting Office on whether a provision in the Nuclear Regulatory Commission's appropriation legislation prohibits awards to intervenors under the Equal Access to Justice Act.

5/ An additional 3,250 covered proceedings were reported to ACUS by agencies that received no applications.

APPENDIX III

Data on Granted Applications for Awards of Fees and Expenses
October 1, 1982 - September 30, 1983

Applicant	Deciding Agency	Paying Agency	Type of Proceeding	Amount Requested	Amount Received
Catskill Airways and Stephen C. Low	National Transportation Safety Board	Department of Transportation (Federal Aviation Administration)	Regulatory enforcement (license suspension)	$20,425.44 (for 3 applicants)	$13,616.96 ($6,808.48 to each of 2 applicants)
Ennis Automotive, Inc.	Occupational Safety and Health Review Commission*	Department of Labor	OSHA enforcement	$9,741.64	$6,800.00 (compromise settlement)
Fogel-Anderson Construction Co.	Occupational Safety and Health Review Commission*	Department of Labor	OSHA enforcement	$1,659.00	$1,375.00 (compromise settlement)
Indian Development District of Arizona	Department of Labor*	Development of Labor	CETA audit dispute	$441.20	$441.20
Wisconsin Winnebago Business Committee (governing body of Indian tribe)	Department of Labor*	Department of Labor	CETA audit dispute	$6,074.63	$6,074.63
New England Farmworkers Council, Inc.	Department of Labor**	Department of Labor	CETA audit dispute	$5,887.50	$5,887.50
Mary Ellen Bryant	Department of Labor	Department of Labor	Farm Labor Contractor Registration Act enforcement proceeding	$766.60	$698.60 (expenses disallowed)
David Ransome	Department of Labor	Department of Labor	Farm Labor Contractor Registration Act enforcement proceeding	$1,131.00	$1,040.00 (expenses disallowed)

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* Award operated by settlement, not by decision.

** Application unopposed by paying agency.

APPENDIX IV

Reasons for Denial of Applications[1]
October 1, 1982 — September 30, 1983

	Number of Applications
Proceeding not a covered "adversary adjudication"	5
Application not timely filed	4
Applicant did not prevail	5
Applicant not eligible[2]	7
Application withdrawn	1
Proper jurisdiction in court, not agency	3
Government's position was substantially justified	28
	53

1/ In a few cases, alternative reasons have been offered for denial. These cases have been counted as denials for the reason that would ordinarily be reached first. For example, if the application was not timely and the government's position was substantially justified, the denial has been listed as one for the former reason.

2/ This includes both cases in which an affirmative finding of ineligibility was made and those in which the applicant failed to provide adequate evidence of eligibility.

APPENDIX I

ACUS Research Update — January 15, 1984

This document contains the following information pertaining to the Administrative Conference's research program.

(A) Active research projects

(B) Projects completed from January 15, 1983 to January 15, 1984

(C) Possible future projects

Jeffrey S. Lubbers
Research Director

(A) Active Research Projects — January, 1984

(1) Special Project: Interagency agreement with the Merit Systems Protection Board

Project: Assist MSPB in evaluating its experimental use of voluntary expedited arbitration to resolve disputes.

Contract Date: September 30, 1982

Comments: The Civil Service Reform Act of 1978 contains a provision, 5 U.S.C. §7701(h), which encourages the MSPB to develop a system of expedited dispute resolution. The Board has determined to effect this by instituting a one-year experimental voluntary arbitration system in several of its regional offices. MSPB has provided funding to ACUS to enable us to assist in outreach, training, and evaluation.

Current Status: The MSPB experiment is underway in 5 regional offices and our evaluation consultants (Dr. Arvil Adams of George Washington University, assisted by Mr. Jose Figueroa-Rivera) are proceeding with their evaluation. The MSPB has extended its experiment six months, until October 1984. In the meantime the consultants are visiting the regions, observing cases and interviewing appellants, counsel and MSPB personnel. The evaluation report is expected by the end of 1984.

(2) Consultant: Anderson, Professor Frederick R.
University of Utah
College of Law
Salt Lake City, Utah 84112
(801) 581-7726

Project: Negotiating voluntary cleanups under Superfund

Committee: Judicial Review (Clayton Cook, Chairman, Candy Fowler, Liaison)

Contract Date: July 1, 1983 (outline); November 2, 1983

Comments: In July 1983 the Conference asked Professor Anderson to undertake a narrative outline of the administrative and procedural issues associated with the EPA's administration of the "Superfund" program and related laws. He submitted an 81-page report analyzing the legislation and EPA's enforcement strategy and proposing a research project designed to "evolve a more acceptable negotiated voluntary cleanup process." In November, we contracted with Professor Anderson for such a project.

Current Status: Professor Anderson briefed the Committee in December. He hopes to have a draft report ready by March and a final report by the end of May 1984.

(3) Consultant:

Anthony, Professor Robert A.
George Mason University School of Law
3401 North Fairfax Drive
Arlington, Virginia 22201
(703) 841-2600 or 841-2662

Project: Disclosure of business information to attorneys in international trade cases

Committee: Judicial Review (Clayton Cook, Chairman; Candy Fowler, Liaison)

Contract Date: October 29, 1982 (transfer of unspent funds under earlier contract)

Comments: Section 777 of the Trade Agreements Act of 1979, 19 U.S.C. §1677f, spells out procedures by which the U.S. International Trade Commission may disclose confidential information obtained in an investigation of import practices to other parties under a protective order. There is a suspicion that this protection may not be sufficient and that potential disclosure may thus discourage the voluntary submission of information to the Commission. Professor Anthony is studying how these procedures are working.

Current Status: Professor Anthony submitted a detailed outline in June, 1983 and has obtained questionnaire responses from member of the international trade bar and from other agencies (on their experiences with protective orders). His draft report will be ready in early 1984.

(4) Consultant:

Bakken, Professor Larry A.
Hamline University School of Law
St. Paul, Minnesota
(612) 641-2189

Project: Agency use of non-ALJ hearing officers

Committee: Not yet assigned

Contract Date: July 13, 1983

Comments: The Conference has done much research on formal agency adjudication, i.e., adjudication involving the use of specially hired and independent administrative law judges. However, many programs that require hearings are not required to utilize ALJs. This project, aided by a questionnaire sent to all adjudicating agencies, will catalogue and study these programs.

Current Status: The questionnaire has received a very good response. Professor Bakken is reviewing the responses and will be selecting some programs for closer study in early 1984. The final report is not expected until the summer.

(5) Consultant:

Bermann, Professor George A.
Columbia University School of Law
435 West 116th Street
New York, New York 10027
(212) 280-4258

Project: Citizen claims against agencies

Committee: Administration (Neil Hosenball, Chairman; Charles Pou, Jr., Liaison)

Contract Date: March 10, 1983 (transfer of unspent funds under earlier contract)

Comments: Agency processes for handling monetary claims against them are an area of administrative procedure where little research has been done since Walter Gellhorn's pioneering work in the 1950's. Professor Bermann's study focuses on how agencies handle claims under the Federal Tort Claims Act, as well as a few agency-specific "meritorious claims" statutes. He has conducted detailed interviews at the Department of Justice and with claims officers at several other agencies about their review procedures, discovery mechanisms, documentation requirements, standards for judging and adjusting claims, and reconsideration processes. He also plans to consider problems involving statutory settlement ceilings and statutes of limitations.

Current Status: Professor Bermann submitted a satisfactory outline in July, 1983. He has completed his interviewing, and plans to have ready by February a draft report containing proposals for improving agency claims handling.

(5a) Consultant:
Boyer, Professor Barry B.
Baldy Center for Law and Social Policy
John Lord O'Brien Hall — Amherst Campus
State University of New York at Buffalo
Buffalo, New York 14260
(716) 636-2782

Project: Private enforcement suit provisions

Committee: Not yet assigned

Comments: Numerous regulatory statutes contain provisions allowing citizens the right to sue to enforce administrative rules or standards. These "citizen suit" provisions have received little attention, but as agency enforcement policy becomes more oriented to voluntary compliance and as enforcement budgets shrink, these provisions take an added importance. The study envisions a cataloguing of the provisions and their use, with some assessment of their impact on agencies.

Current Status: Professor Boyer submitted an outline of his proposed study. We are awaiting his preliminary report, before deciding whether to continue the study.

(6) Consultant:
Brown, Professor George D.
Boston College Law School
885 Centre Street
Newton, Massachusetts 02159
(617) 969-0100

Project: Effective implementation of block grant programs

Committee: Administration (Neil Hosenball, Chairman; Charles Pou, Jr., Liaison)

Contract Date: September 23, 1982

Comments: With the accelerating trend away from categorical grants and toward block grants to states, the federal role has been reduced — but not eliminated. Questions concerning the applicability of cross-cutting federal requirements, auditing procedures and standards, resolving disputes, transition difficulties, and others present themselves and are potential subjects for litigation in federal court. The study is intended to prepare federal agencies for the inevitable need to resolve these issues.

Current Status: Professor Brown has prepared a draft portions of his report and has met with the Committee several times. The draft report looks at emerging legal questions, including those raised by private enforcement litigation. The final report will examine more closely the implications of this litigation, and of other disputes, and will likely consider administrative procedures that could be useful in reducing lawsuits.

(7) Consultant:

Emery, Fred
Fred Emery Associates
910 - 17th Street, N.W., Suite 701
Washington, D.C. 20006
(202) 659-2177

Project: Rulemaking as an organizational process.

Committee: Rulemaking (Calvin Collier, Chairman; Stephen Babcock, project liaison)

Contract Date: September 26, 1980

Comments: Conference studies of rulemaking normally focus on procedures by which an agency deals with the outside world. For example, must an agency allow notice and comment? Rebuttal opportunities? An oral hearing? Cross-examination? And so on. This project takes a different approach of focusing on characteristics of the internal agency process to determine whether dysfunction occurs. Four case studies (involving FAA, EPA, SSA and USDA rules) were selected for analysis. In each the agency was not facing unduly novel or complex issues, the required procedures were straightforward, and the information-load manageable, yet the results were aberrational.

Current Status: The draft final report by Mr. Emery has been received and reviewed by the Committee which urged that the report be given wide circulation. However, the Committee concluded that though the report is useful, it does not provide the basis for generalized Conference recommendations. In July, 1983, Conference staff asked Dr. Virginia Schein, an organizational psychologist, to examine the report to suggest possible generalized approaches. The staff is now reviewing Dr. Schein's report.

(8) Consultant:

Harter, Philip J.
4801 Massachusetts Avenue, N.W.
Suite 400
Washington, D.C. 20016
(202) 966-0541

Project: Alternatives to agency adjudication

Committee: Administration (Neil Hosenball, Chairman; Charles Pou, Jr., Liaison)

Contract Date: October 29, 1982

Comments: Spurred by the success of Mr. Harter's study on regulatory negotiation, we asked him to look into techniques that agencies might consider using as alternatives to trial-type adjudication. The study was originally begun as part of his work under our interagency agreement with the Merit Systems Protection Board (see supra). Recently, the Conference received some supporting funds from the Department of Justice to carry out a larger-scale study. It will examine the potential of mediation, arbitration, negotiation, mini-trials and other processes to help agencies reduce the delay and obstructions often found in trial-type cases.

Current Status: The Conference staff has surveyed agencies on their use of such techniques. Mr. Harter has begun background work, including interviews with personnel at agencies that are using alternatives. A draft report is expected in the spring.

(9) Consultant:

Harter, Philip J.
4801 Massachusetts Avenue, N.W.,
Suite 400
Washington, D.C. 20016
(202) 966-0541

Project: Development of a framework for identifying and coordinating alternatives to federal regulation

Committee: Regulation (Betty Jo Christian, Chairman; William Bush, Liaison)

Contract Date: September 23, 1982

Comments: Much has been written about such alternatives to federal regulation as voluntary standards, product liability law, insurance, state-imposed product standards, and product recalls, but there is a need to develop a framework for coordinating such alternatives. Mr. Harter, with his subcontractor George Eads, will develop such a framework.

Current Status: Messrs. Harter and Eads met with the Committee in December 1983 to discuss the draft of the framework. The Committee was intrigued with the framework, but felt that the draft was too technical for use by agencies. The consultant agreed to redraft the document for agency use.

(10) Consultant:

Kress, Professor Jack M.
Delaware Law School
P.O. Box 7474
Concord Pike
Wilmington, Delaware 19803
(302)478-5280

Project: Inspections by Federal agencies for regulatory violations

Committee: Governmental Processes (Margery Waxman, Chairman; David Pritzker, Liaison)

Contract Date: September 27, 1982

Comments: Since the Supreme Court ruled, in Marshall v. Barlow's Inc. (1978), that OSHA inspections require search warrants, some agencies have been subject to a warrant requirement and some have not. Questions have arisen for both categories of agencies. Also questions have arisen about the use of contractors for inspections and the use of airborne surveillance techniques.

Current Status: Professor Kress submitted a satisfactory project outline. He requested, and was granted, an extension of the due date for his report. It is now expected in early 1984.

(11) Consultant:

Levinson, Professor L. Harold
Vanderbilt University Law School
Nashville, Tennessee 37240
(615) 322-2540

Project: State administrative law sources of innovations for adaptation and use by the Federal government

Committee: Office of the Chairman (Jeffrey Lubbers, Liaison)

Contract Date: September 29, 1976; amended March 17, 1978 and July 8, 1983.

Comments: Professor Levinson conducted an exhaustive survey of innovative state administrative law developments and provided us with a complete, indexed set of state APAs. We then narrowed the topics to 15 "semi-finalist" topics and then 5 "finalist" topics. They are: model rules of procedure, formal/informal hearing procedures, scope of judicial review, legislative review of rulemaking, and hearing officer programs.

Current Status: We have received his "Interim Report on 'Final' Topics," a 30-page report with extensive appendices, and have disseminated relevant parts to other consultants and interested persons. In October 1980 we agreed that Professor Levinson would satisfy his remaining obligation to us by submitting a final draft of the interim report and two more intensive monographs on the subjects of legislative review of agency rulemaking, and state hearing officer programs. Professor Levinson has submitted both monographs. The latter has been published in a special issue of Judicature (Nov. 1981) devoted to hearing officers. The former has been circulated to interested members of Congress and was recently published, 24 W & M L. Rev. 79 (1982). A supplementary report, "Congressional Oversight of Agency Rulemaking: Options Available After Chadha," was the basis for the Assembly's discussion at the Plenary Session in December 1983.

(12) Consultant:
McGarity, Professor Thomas O.
University of Texas School of Law
2500 Red River
Austin, Texas 78705
(512) 471-5151

Project: Agency implementation of the "regulatory analysis" requirement in rulemaking.

Committee: Rulemaking (Calvin Collier, Chairman; Michael Bowers, Liaison)

Contract Date: September 22, 1982

Comments: Federal agencies have been conducting regulatory analyses under several Executive Orders for the past six years. The pending regulatory reform bill would make this a statutory requirement for all major rules. Although there is widespread consensus that such analyses can be useful, this study will undertake to see how well agencies have been integrating this requirement into their rulemaking process and what needs to be changed.

Current Status: Professor McGarity has met with the Committee twice to discuss his outline and research findings. A full draft report is expected in early 1984.

(13) Consultant:
Neely, Professor Alfred S. (IV)
University of Missouri-Columbia Law School
Tate Hall
Columbia, Missouri 65211
(314) 882-7630

Project: Statutory inhibitions on cost-benefit or cost-effectiveness analysis in agency regulation

Committee: Not yet assigned (Jeffrey Lubbers, Liaison)

Contract Date: September 25, 1981

Comments: The recent movement toward use of cost-benefit analysis in regulation has bumped up against various statutory provisions forbidding or limiting cost considerations in regulation. Professor Neely will undertake a comprehensive statutory search to identify such provisions and, after consultation with us, will select several such provisions for analysis.

Current Status: The statutory search was completed in February, 1982 (appended to preliminary outline). It was sent (in revised form) to Boyden Gray, Counsel to the Vice President, who expressed strong interest. Professor Neely has selected six statutory provisions for further study. The report is overdue.

(14) **Consultant:** Ogden, Professor Gregory L.
Pepperdine University School of Law
24255 Pacific Coast Highway
Malibu, California 90625
(213) 456-4611

Project: Siting of large-scale development projects

Committee: Regulation (Betty Jo Christian, Chairman; William Bush, Liaison)

Contract Date: March 10, 1982; amended December, 1982

Comments: The approval of large-scale development projects such as pipeline terminals, oil refineries, synthetic fuel plants, etc., typically involves complex and overlapping regulatory issues and jurisdictions. Doubts about whether the single interest agency model is capable of handling these issues have led to proposals for "super agencies" like the recently-proposed Energy Mobilization Board. Professor Ogden is examining the history of several large-scale proceedings and is evaluating the utility of two state alternative models: the California Energy Commission and the Colorado Joint Review Process. ACUS will seek the input of the Advisory Commission on Intergovernmental Relations as soon as a tentative proposal has been developed by the Committee on Regulation.

Current Status: A draft report was submitted last fall. Based on the Committee's urgings, Professor Ogden agreed to expand the scope of his report. The revised report was received in September 1983, and the Committee is considering its findings. Professor Ogden is currently rewriting his proposed recommendations.

(15) **Consultant:** Osakwe, Professor Christopher
Director
Eason-Weinmann Center for Comparative Law
Tulane University School of Law
New Orleans, Louisiana 70118
(504) 865-5986

Project: Re-examination of the scope of judicial review of agency actions

Committee: Judicial Review (Clayton Cook, Chairman; Candy Fowler, Liaison)

Contract Date: May 10, 1983

Comments: The caselaw relating to the scope of judicial review of agency action is confusing. Judicial opinions waste inordinate space trying to spell out the meaning of the formulas listed in section 706 of the APA. And the results seem to indicate considerable overlap between the "arbitrary and capricious" test and the "substantial evidence" test. We asked Professor Osakwe, an expert in comparative law, to take a fresh look at the situation.

Current Status: Professor Osakwe has met with the Committee to discuss his outline and he has submitted a draft report, now under review by the staff.

(16) Consultant:
Powell, Professor Burnele V.
University of North Carolina School of Law
Chapel Hill, North Carolina 27514
(919) 962-4118

Project: Declaratory orders under the APA.

Committee: Not yet assigned.

Contract Date: September 23, 1982

Comments: Although the APA, section 554(e), provides for agency use of declaratory orders to terminate controversies, this technique is rarely used. The study will seek to understand what, if anything, should be done about this.

Current Status: Professor Powell has made several trips to Washington to interview agency officials. His draft report is expected soon.

(17) Consultant:
Reese, Professor John H.
University of Denver College of Law
200 West 14th Avenue
Denver, Colorado 80204
(303) 753-2560

Project: The operations of the British Council of Tribunals.

Committee: Office of the Chairman

Contract Date: September 23, 1982

Comments: The activities of the British Council of Tribunals may provide lessons for ACUS on how to attain an enhanced role in procedural reform within our governmental structure and on how to improve implementation of our recommendations. Professor Reese, who will be a visiting professor at the University of Edinburgh in 1983-84, will be in position to undertake this study.

Current Status: Professor Reese began his sabbatical in late 1983, so his work is just beginning.

(18) Consultant:
Rose, Professor Jonathan
Arizona State University College of Law
Tempe, Arizona 85281
(602) 965-6513

Project: Non-lawyer representation of parties and participants in federal agency proceedings.

Committee: Regulation (Betty Jo Christian, Chairman; William Bush, Liaison)

Contract Date: February 23, 1982; amended December, 1982

Comments: Few agencies' rules of practice address the issue of whether non-attorney experts can act in a representational role during agency proceedings. ACUS Council Member (and FTC Chairman) James Miller expressed personal interest in this issue, especially as it bears on the use of economists. Professor Rose was asked to review available materials, conduct interviews and prepare a report on the subject.

Current Status: A preliminary conceptual draft was circulated to Committee members. The Committee urged Professor Rose to expand the scope of his research to include special professional responsibility problems (e.g., attorney-client privilege) relating to non-attorney representation. His revised report is expected soon. Meanwhile the FTC has issued a procedural rule permitting non-lawyer representation in its proceedings, and Professor Rose filed comments in the rulemaking.

(19) Consultant: Rosenblum, Professor Victor G.
Northwestern University School of Law
357 East Chicago Avenue
Chicago, Illinois 60611
(312) 649-8443

Project: Evaluation of administrative law judge performance

Committee: Adjudication (Jane Matheson, Chairman; Richard Berg, Liaison)

Contract Date: October 26, 1979; amended September 1, 1981, and January, 1983

Comments: Proposed regulatory reform legislation in the 95th Congress would have given the Conference responsibility for evaluating ALJ performance. The original project was designed to prepare us in case such legislation passed. After the prospect of such legislation faded, the focus was changed to a study of means of accomplishing evaluation without legislation.

Current Status: A draft report was submitted in May 1980, and has been given a limited circulation. Professor Rosenblum submitted a revised report in April 1981 which was reviewed by the predecessor committee. That committee suggested that Professor Rosenblum develop and submit a detailed proposal for the structure and operation of a system of evaluation of ALJs suitable for implementation under existing legislative authority. This idea foundered due to less-than-anticipated involvement by ALJ organizations.

In 1981 Professor Rosenblum submitted a draft report on the feasibility of evaluating the performance of ALJs. This report draws on the experiences of other judicial evaluation commissions to suggest applications to the federal administrative law judiciary. This report was updated in December 1983. In the meantime, we asked Professor Rosenblum to study the question of what agencies can and should do to oversee and manage the quantitative and qualitative performance of ALJs. This inquiry focuses on the past and current disputes between the Social Security Administration and its ALJs. A satisfactory draft report was submitted in December 1983, and revision will be made in the next few months. The Committee will be considering the issues in the coming months.

(20) Consultant: Schwartz, Professor Teresa M.
The National Law Center
The George Washington University
Washington, D.C. 20052
(202) 676-6781

Project: Product recall procedures

Committee: Governmental Processes (Margery Waxman, Chairman; David Pritzker, Liaison)

Contract Date: April 1, 1983

Comments: Some agencies make frequent use of their authority to order recalls of tainted or defective products. Professor Schwartz is studying the experience of three such agencies: FDA, CPSC and NHTSA.

Current Status: Professor Schwartz' draft report has been received and the Committee will be taking it up in early 1984.

(21) **Consultant:** Sharlin, Dr. Harold I.
2832 Northampton Street, N.W.
Washington, D.C. 20015
(202) 966-2122

Project: Interagency colloquium on regulatory design in theory and practice.

Committee: Office of the Chairman (Jeffrey Lubbers, Liaison)

Contract Date: August 11, 1982

Comments: Dr. Sharlin has coordinated this colloquium under other auspices for two years. Last year we sponsored it for the first time and have renewed our contract with Dr. Sharlin as coordinator in 1983-84. The project is wholly funded by contributions from participating agencies. Ten colloquium sessions will be held, with the advice of an advisory panel.

Current Status: The summaries of the 11 monthly sessions held in 1982-83 have been published. Five monthly sessions have been held in 1983-84 and five more are scheduled.

(22) **Consultant:** Staff (Charles Pou, Jr.)

Project: Agency use of time limits and related techniques for reducing delay

Committee: Not yet assigned

Starting Date: July, 1982

Comments: The impetus for this project was a desire to assess several agencies' implementation of ACUS Recommendation 78-3, calling on agencies to establish time limits to expedite their adjudicative and rulemaking proceedings. Mr. Pou, with the assistance of Charlotte Jones, a summer intern at the Conference, studied and compiled information on the activities of several agencies that have instituted time limits (CAB, NLRB, Department of Labor and HHS's Grant Appeals Board).

Current Status: First draft completed in late 1982. Ms. Jones returned in 1983 and, with Mr. Pou, completed a revised draft. Circulation and committee consideration is likely in 1984.

(23) **Consultant:** Staff

Project: Feasibility of uniform rules of administrative procedure

Committee: Select Committee on Uniform Federal Agency Rules of Procedure (Jean Greene, Chairman; Jeffrey Lubbers, Liaison)

Starting Date: September, 1979

Comments: Regulatory reform legislative proposals introduced in the 95th Congress would have given ACUS responsibility for developing model rules of administrative procedure. In its most comprehensive form, this requirement would apply to all APA proceedings, including rulemaking and ratemaking/licensing as well as adjudication. The American Bar Association has been interested in this topic for 25 years, and the ABA's prior work is the genesis of the legislative proposals. We engaged an outside consultant to sift through the history and provide us with some specific recommendations as to areas in which such rules might be feasible and acceptable to agencies. And in 1983 Chairman Smith established a select committee to work on this project.

Current Status: The consultant's final report was submitted on September 30, 1981. The report was not satisfactory for external distribution because of its unwieldiness and organizational problems. The Select Committee has met twice and has authorized a survey of agency reactions to the Department of Labor's recently promulgated rules of practice that apply to the dozens of different adjudications administered by DOL. The Committee will meet in early 1984 to review the responses.

(24) Consultant: Staff (Michael Bowers)

Project: Guide to Federal Agency Rulemaking (supplements)

Committee: Office of the Chairman

Starting date: November, 1983

Comment: In 1983 the Conference published "A Guide to Federal Agency Rulemaking," a 300-page comprehensive and practical guide to the subject. It has been very well received. Single copies are on sale from the U.S. Government Printing Office for $5.50 (stock #052-003-00923-4).

Current status: Because supplements to the Guide are planned in future years, the staff, under Mike Bowers' direction, will be continuing to collect materials for the supplements throughout 1984.

(25) Consultant: Staff (original consultant withdrew)

Project: Federal pre-emption of certain regulatory areas to avoid uneven state regulation.

Committee: Regulation (Betty Jo Christian, Chairman; William Bush, Liaison)

Contract Date: September 27, 1982

Comments: This project is of special interest to Christopher DeMuth, Administrator of OMB's Office of Information and Regulatory Affairs. A number of industries have sought "relief" from uneven state regulation by seeking a preemptive federal regulation. The study will seek to determine what standards and considerations should govern pre-emption decisions.

Current Status: The original consultant (Professor Kitch) withdrew from the project after undertaking preliminary work. A search for a replacement consultant is underway.

(26) Consultant: Staff (Jeffrey Lubbers) (original consultant withdrew)

Project: Narrowing or avoiding formal evidentiary hearings in initial licensing proceedings.

Committee: Office of the Chairman

Contract Date: July 16, 1979

Comments: This project derived from ACUS' interest in proposals in various regulatory reform bills to amend the APA's adjudication provisions to institute an expedited hearing process in certain cases. We engaged a consultant to examine agency experience with initial licensing programs to see how such expedited hearing procedures work. Five agencies' programs (ICC, CAB, FDA, EPA and FCC) were selected for examination.

Current Status: A draft report was received in December 1980. Because the consultant was unable to continue work on the project, it was taken over by ACUS staff. A revised report was prepared in September 1981, and is undergoing further revision. Although this is not an urgent project, the research director hopes to revive and complete it in 1984.

(27) Consultant:

Stein, Robert E.
1775 Pennsylvania Avenue, N.W.
Suite 475
Washington, D.C. 20006
(202) 457-0753

Project: Allocation of burden of proof in the permitting process

Committee: Not yet assigned

Contract Date: July 29, 1983

Comments: This project is primarily funded through an interagency transfer by the EPA, which has several major permitting programs. The project plan, as worked out with Mr. Stein and EPA, calls for a study of permitting procedure at FDA, EPA, and another agency to be selected later. Burden of proof allocation will be examined so as to provide EPA and other agencies with advice as to changes that might be sought in statutes and regulations to facilitate the permitting process.

Current Status: Mr. Stein's outline was approved, with some suggestions for additional work, by ACUS and EPA. He will be submitting his draft report in the spring.

(28) Consultant:

Steinberg, Ann
Boasberg, Klores, Feldesman & Tucker
2101 L Street, N.W., Suite 906
Washington, D.C. 20037
(202) 466-8960

Project: Procedural questions raised by the Debt Collection Act of 1982

Committee: Administration (Neil Hosenball, Chairman; Charles Pou, Jr., Liaison)

Contract Date: June 8, 1983 (transfer of unspent funds under earlier contract)

Comments: This project is intended to survey major legal and procedural questions raised by the Act, which gives agencies new authority to assess interest on debts owed to the government, use administrative offset processes, and avail themselves of the services of collection agencies and credit bureaus. Significant questions appear to include the kinds of procedural protections that should be provided agency employees, grant recipients, and others before offset can be made; the practical effect of the Act's exemption for state and local governments; at what point during an administrative appeal interest should begin to accrue; the extent of agencies' non-statutory (i.e., common law) rights to assess interest and make offsets; and how offsets involving more than one agency should be handled.

Current Status: Ms. Steinberg has been interviewing agency representatives and other interested people, and has promised a draft report in early 1984.

(29) Consultant: Verkuil, Professor Paul R.
Dean
Tulane Law School
New Orleans, Louisiana 70118
(504) 865-5938

Project: Adjudication procedures of the Immigration and Naturalization Service

Committee: Not yet assigned

Contract Date: July 12, 1983

Comments: Various developments have made this a propitious time to study and evaluate the informal adjudication procedures of the INS. The Supreme Court is deciding the constitutionality of exclusion procedures, and the asylum and extended voluntary departure procedures have received extensive judicial scrutiny. Moreover if the "Simpson-Mazzoli bill" becomes law there will be new informal procedures needed to decide illegal alien legalization and employer sanction cases. These cases would run into the millions. The study will address the subject by following the format used in Professor Verkuil's earlier "A Study of Informal Adjudication Procedures," 43 U. Chi. L. Rev. 739 (1976), prepared for the Conference. The approach is basically to isolate the procedural "ingredients" in each informal decision function, evaluate their importance on a scale that measures accuracy, fairness and efficiency of procedures, and decide whether each of the functions satisfies constitutional muster.

Current Status: Professor Verkuil has submitted a satisfactory outline and has begun his interviewing. A draft report is expected this spring.

(30) Consultant: Welborn, Professor David M.
Department of Political Science
University of Tennessee
Knoxville, Tennessee 37916
(615) 974-4386

Project: Assessment of the Government in the Sunshine Act

Committee: Adjudication (Jane Matheson, Chairman; Richard Berg, Liaison)

Contract Date: September 25, 1981

Comments: Sufficient time has passed to evaluate the Sunshine Act's costs and benefits, with special emphasis on the Act's impact on agency operations decisions. Professor Welborn, with the assistance of two colleagues, Professor William Lyons (U. of Tennessee) and Professor Larry Thomas (U. of Baltimore) has completed a draft report based on the results of interviews, an extensive survey of past and present agency officials, and a review of agency annual reports and court decisions.

Current Status: A complete draft was submitted and the Committee voted to propose tentative recommendations (urging broadened exemptions from the Act) for comment in the Federal Register. Many comments from agencies and the general public were received. After considering the comments, the Committee asked Professor Welborn to do additional work. The Committee will renew its consideration early in 1984.

(B) Projects completed from January 15, 1983 to January 15, 1984

(1) Consultant: Cass, Ronald (Boston University)

Project: Agency structures and practices for reviewing administrative law judge decisions

Result: Foundation for ACUS Recommendation 83-3.

(2) Consultant: Diver, Colin (Boston University)

Project: Optional precision of agency standards

Result: Foundation for 1983 ACUS "Statement on Guidelines for Choosing the Appropriate level of Agency Policy Articulation," 1 CFR §310.9. Abridged version of report published, 93 Yale L.J. 65 (1983).

(3) Consultant: Jordan, Ellen (University of Georgia)

Project: The "good cause" exemption from APA rulemaking requirements

Result: Foundation for ACUS Recommendation 83-2.

(4) Consultant: Levinson, Harold

Project: Congressional oversight of agency rulemaking: options after Chadha

Result: Report served as foundation for Assembly debate on this issue in December, 1983. (Transcript to be published in 1984). The report draws substantially on related ACUS sponsored piece in 24 William and Mary L. Rev. 79 (1982).

(5) Consultant: Madden, Thomas (D.C. Bar)

Project: The certification requirement in the Contract Disputes Act

Result: Foundation for ACUS Recommendation 83-1.

(6) Consultant: Schuck, Peter (Yale)

Project: Agency use of waivers and exceptions

Result: Foundation for 1983 ACUS "Statement on Agency Use of An Exceptions Process to Formulate Policy." 1 CFR §310.10. Report is scheduled for publication in the 1984 Duke L. J.

(7) Consultant: Sharlin, Harold (Washington, D.C.)

Project: Colloquium on regulatory design in theory and practice

Result: Summaries of 11 sessons held in 1982-83 were published by ACUS in 1983.

(8) Consultant: Staff (Richard Berg)

Project: Insulation of decisionmaking at the Department of Transportation after transfer of CAB functions

Result: Paper completed and submitted at the request of DOT.

(9) Consultant: Staff (Michael Bowers)

Project: Guide to Federal Agency Rulemaking

Result: Guide completed and published by GPO in 1983.

(10) Consultant: Tomlinson, Edward

Project: Use of the FOIA for discovery purposes

Result: Foundation for ACUS Recommendation 83-4.

(11) Consultant: Wood, Stephen

Project: Repeal of Rules

Result: Report submitted, but Committee took no action; supplementary work completed by James DeLong resulted in a paper, "Repealing Rules: The Impact of the Airbags case."

(C) Possible Future Projects (January 15, 1984)

1. Rulemaking and Public Information
   - a) Petitions for rulemaking
   - b) Obtaining adequate evidence before issuing industry-wide rules.
   - c) Agency retention of fees collected under FOIA
   - d) Proposal for an administrative tribunal to resolve FOIA and other public access disputes
2. Coordination
   - a) Division of roles in joint federal/state programs (e.g., how federal agencies certify state enforcement programs)
   - b) Agency/Department of Justice roles in litigation
   - c) Consolidation of permit procedures
   - d) ICC-state relationship under the Staggers Rail Act of 1980
   - e) Study of OSHA-OSHRC, FMSHA-FMSHRC split enforcement model
   - f) Coordination of Federal regulatory efforts in:
     - (i) Transportation
     - (ii) Banking and Finance
     - (iii) International Trade

3. Regulatory Reform
  a) Monitoring Recent Requirements
    i) Paperwork Reduction Act
    ii) Deregulation experience of CAB, FCC, ICC
    iii). How to conduct systematic review of existing rules
    iv) Development of a "consensus" ACUS draft regulatory reform bill
    v). How to sunset an agency — cutoff vs. phase-out (lessons to be learned from CAB, BATF)
  b) New Approach to Regulation
    i) Use of audited self-certification
    ii) Implementation of the marketable rights (bubble) concept in air pollution regulation
    iii) Regulatory cost accounting; regulatory budget
    iv) Exploring methods to facilitate agency consideration of resorting to/assessing user fees
  c) Improvements in Formal Agency Proceedings
    i) Unified corps of ALJ's — study of economic arguments in the states
    ii) Use of Federal Rules of Evidence in agency proceedings
    iii) Enhancement of public participation in policy-making adjudications
    iv) Settlement techniques and procedures
    v) Use of teleconferencing and computer conferencing in agency hearings
    vi) Small-case procedures at the agency level (e.g. OSHRC)
  d) Improvements in Informal Agency Proceedings
    i) The FDA's public board of inquiry (a useful "science court"?)
    ii) FCC's use of lotteries or auctions in licensing
    iii) Problems in federal prisoner grievance administration
  e) External Control of Agencies
    i) Agency/Congressional committee relationship
    ii) Executive/independent agency dichotomy — is it still viable after *Chadha*?
    iii) Role of OMB circulars in providing guidance to agencies
    iv) Role of inspectors general

4. Judicial Review

   a) Specialized judicial review tribunals (e.g. TECA, other past and proposed courts)

   b) Examination of provisions for exclusive jurisdiction in the D.C. Circuit

   c) Improved small-case review procedures

   d) Standardizing forms of action for review

   e) Relationships among the agencies, the Executive Office and the Solicitor General's Office in judicial review of administrative law questions

   f) Preparation of joint appendices for judicial review of major rulemakings

5. Miscellaneous

   a) Development of a unified theory of compensation for government wrongs

   b) Agent orange, asbestos claims process

   c) Evaluation of the Federal employee financial disclosure law (principally the Ethics in Government Act of 1978)

   d) How agencies utilize and organize their policy and planning offices

   e) Charge of fees for routine services provided by agencies (see new proposals by CAB, FERC, FMC)

   f) Study of the operation of the Senior Executive Service system, with comparative analysis of other countries' top civil service

   g) Legal and practical problems in the coming computerization of record maintenance in agency proceedings

   h) Study of operations of federally approved "compacts."

THE CONFERENCE MISSION

Mr. SMITH. Let me make a few observations on why I feel the Conference should be funded and why I feel the Conference is a useful part of Government.

The Conference was established in 1964 after a number of recommendations—by the Hoover Commission and the Brownlo Commission—that such a body would be useful with the large growth of Government and the need for rationalizing that. I particularly feel this is important at this present time

I came to Washington to this job in 1981 with a sense that there was a malaise in Government; something was wrong. I think the recent discussion and debate over the legislative veto is a further symptom that something is wrong, that citizens of this country feel that their Government is often too cumbersome, too constraining, too restrictive of both their freedom and the right of individuals to compete in a free society.

The Conference has as its goal really a double thrust. One is to help Government be more fair and the other is to help Government be more efficient. The Conference does this at low cost; it does this with some of the best minds in the area of administrative law. Fifty of the 91 members of the Conference come from Government. The 40 members who come from the private sector serve without any compensation. We pay their expenses, though. The 91st member is the Chairman, who is the only full-time member of the Administrative Conference.

RECENT PROJECTS

I think that it is very important for Government leaders to get together and try to make the system work better and more fairly, to take more burdens off the taxpayers of this country. The Conference does this by doing research projects on ways of improving the system. It meets twice a year and those meetings get Government officials together with private citizens to debate various issues and recommendations.

In the last year we have produced four formal recommendations, combined with two less formal statements on administrative law and procedure.

We have also been working on four projects that I am particularly proud of. One, which was mentioned by Herb Ellingwood, the Chairman of the Merit Systems Projection Board, is that we have been working on a system with that agency to create alternative dispute resolution mechanisms. I think they have been very pleased with the results.

Second, we have been working recently—and just testified last Thursday before Congressman Sam Hall's subcommittee of the House Judiciary Committee—and have been working with both Congressman Hall and Congressman Tom Kindness—on a bill to resolve a problem called the race to the courthouse. This involves two disputing litigants who are challenging an agency's decision who seek to have that dispute resolved in different courts of appeals. Currently, very costly races occur and create difficulties for the court system. The Conference's recommendation, which has been virtually unanimously lauded, and also is supported very strongly by the American Bar Association, is being put forward in a bill sponsored by Congressman Hall and Congressman Kindness.

A third project that I am proud of is our recommendation to change the certification requirement of the Contract Disputes Act—excuse me, that is what I testified on on Thursday. That is being put forward by Congressman Kindness of that same subcommittee and I believe it has strong support from that subcommittee from both sides of the aisle.

This would eliminate what is really a jurisdictional anomaly in the Contract Disputes Act, an anomaly that costs ultimately the Government and contractors significant amounts of money.

And, finally, we have been working to implement a recommendation of the Conference that was voted upon last year called regulatory negotiation, where agencies can get the interested parties together before the formal rulemaking process begins, to expedite and speed that process and make our economy more competitive, trying to take lawyers somewhat out of the rulemaking process and put engineers and other experts in the particular area into that process. The Federal Aviation Administration has been experimenting with the program and the experiments have proved very useful and they think very fruitful and have given us help and thanks in working with them to implement this recommendation. The Environmental Protection Agency and the Occupational Safety and Health Administrative have also gone forward with regulatory negotiation experiments.

CLEARINGHOUSE ACTIVITIES

Finally, let me add, the conference has gone forward with what I think is among the most cheap and effective kinds of help to the Government—this vast structure that we have created—and that is improving interchange of information among the agencies. Someone said the Federal Government was in danger of being Balkanized. To a very real and very large extent that Balkanization is not merely a danger; it has already occurred. And the only way to try to reunify the Government is to share experiences, to share successes, to find out what does not work, by getting people to talk to each other.

The Conference has initiated two such groups that meet regularly; one, called the council of independent regulatory agencies, which gets together every month, where we bring the chairmen of the major regulatory agencies together to share their experiences.

The second is the agency management information group, which does the same for agency managers within a cross section of all non-Cabinet agencies.

THE EQUAL ACCESS TO JUSTICE ACT

There are two other points which I should mention. One is the Conference's continuing role—and I think it is an important one—with respect to the Equal Access to Justice Act. This act, as you know, gives the small businessman, who cannot afford litigation costs in the past and who thus have been forced into settlements with the Government, a leg to stand on when they feel they are right. If the Government brings an unreasonable enforcement action or an unreasonable action of any kind against a small businessman, that individual can have his legal fees paid for out of the budget of the agency. We have prepared two annual reports to Congress on this act, and have testified on it several times.

THE RULEMAKING GUIDE

Finally, one publication I am very proud of was initiated during my term as Chairman of the Administrative Conference and came to fruition this last fall. It is the first comprehensive guide to agency rulemaking, a sort of an A to Z handbook; and we have copies of it here. The initial run, I believe, was 4,000 of these guides. We are informed this Friday that the Government Printing Office is entirely sold out of its first edition. The Government Printing Office, I am told, is going to run a second edition. It has been a very useful guide and the reviews we have gotten of it have all been very favorable.

Thank you very much, Senator.

RESEARCH CONTRACTING

Senator ABDNOR. Thank you. I appreciate that. You have a lot of active research projects going. Now, when you select the individuals to head those up, does that come from a list of people who let you know that they are interested, or do you go through quite a selection process to find an expert in the field? I assume they are all experts that you select.

Mr. SMITH. Well, we try to select the individual by talking to all the qualified people. We also are sometimes solicited by professors and others who feel they have a worthwhile project and if we agree, and have the resources, we will make a grant.

Senator ABDNOR. Do they select the project or do you?

Mr. SMITH. Well, it happens both ways. The administrative law area does not have a whole universe of projects, so often the same projects we are interested in, and that our research indicates are the kind that we should be considering, people also bring to us; we are dealing with very small amounts of money, usually, so we often do not have the luxury of doing much competing for consultants.

Senator ABDNOR. I do not suppose everyone you ask is willing to take the job. Most of the projects you have are submitted to you by people who are interested; is that right?

Mr. SMITH. Yes, many of them are; though just as often we go out and seek a consultant when we have a project that we think needs doing.

FISCAL 1984 BUDGET SHORTFALL

Senator ABDNOR. Your fiscal 1984 appropriation was quite a bit below your request. How did you accomplish your mission with the lower figure?

Mr. SMITH. We have accomplished it really by living off of the salary of one individual who left the Conference who was a staff attorney who went to the Department of Labor, and his staff salary became our research budget, which is fairly low. I think our total budget, if I am not mistaken was about $60,000 under the last fiscal year. So we did not have very much money to spend.

Senator ABDNOR. Is that the only personnel reduced, that gentleman's position, or did you have other people you had to let go?

Mr. SMITH. No; we did not have anyone else we had to let go.

Senator ABDNOR. Did you have to cut back on your travel quite a bit, or do you do much?

Mr. SMITH. We have not done that much travel. The biggest travel item, I think, if the cost of the members who come to Washington from various parts of the country, and I hope to expand that since I think it is important to get a broad representation from different areas of the country.

Senator ABDNOR. Well, you are not asking for as much this year as you had in the past, are you?

Mr. BABCOCK. There is, unfortunately, in the President's fiscal 1985 request, Senator, a mistake that I made—quite simply in marking up the galleys when they came back from OMB. The number in the 1985 request, $45,000, is less than we had put in and that OMB had actually approved, which was $70,000.

Now, I am sure you are aware that section 501 of the standard language in the appropriation act prohibits our spending more than has been submitted in the President's budget for employee travel. And we will be able to avoid running afoul of that because we have always reported, in that same object class, expenses for travel of our contractors, the law professors who come back and forth for meetings of our committees. But, unfortunately, that $45,000 is not a real reduction. Air fares have gone up and we are hit like everybody else.

However, we will continue to save as much as we can in that area.

Senator ABDNOR. Thank you. I appreciate your attendance here today and I know you are doing fine work and I will tell Mr. Hirsch I saw you and that I gave you a bad time down here.

Mr. SMITH. Well, thank you very much, Senator. It was a very pleasant time.

Senator ABDNOR. Thank you.

ADVISORY COMMITTEE ON FEDERAL PAY

STATEMENT OF LUCRETIA DEWEY TANNER, EXECUTIVE DIRECTOR

PREPARED STATEMENT

Senator ABDNOR. We welcome Lucretia Tanner here with us today of the Advisory Committee on Federal Pay. You are going to read Mr. Rosow's statement, is that it?

Ms. TANNER. Yes; let me send Mr. Rosow's regrets to the committee for not being able to appear today. As Executive Director for the committee I will try to stand in for him.

Senator ABDNOR. Fine. You go right ahead.

Ms. TANNER. Fine, thank you.

Knowing that there is a time constraint on your time, I would like to summarize the statement.

Senator ABDNOR. We appreciate your thoughtfulness.

[The statement follows:]

Statement of Jerome M. Rosow

I am Jerome Rosow, Chairman of the Advisory Committee on Federal Pay. The Committee was established by the Federal Pay Comparability Act of 1970 (Public Law 91-656) and is responsible for making recommendations to the President regarding the annual increase for Federal white-collar employees. It also reviews compensation policy recommendations and mediates pay matters between the President's Pay Agent and representatives of the Federal Employees Pay Council. As an appendix, I am attaching a brief summary of the authority for the Committee.

My discussion today is divided into three interrelated parts. First, I will briefly review the reasons and circumstances leading to the passage of the Federal Pay Comparability Act of 1970 and the role of the Committee. Next, I will discuss the problems facing the Federal compensation system today and the Committee's recommendations for the October 1983 pay increase. Lastly, I will submit our budget request.

The Need for a Brief History

Today the comparability principle is under attack and repeated departures from it has lessened its credibility as a viable system. The 1983 data showed that a 21.5 percent pay increase was necessary to bring Federal workers' wages on a comparable level with the private sector. An increase of this magnitude appears to discredit the system and its methodology. The Advisory Committee believes that both the comparability concept and the basic methodology for achieving comparability are sound and appropriate pay setting mechanisms. It should be mentioned, however, that this gap is not the result of a single year, but, rather, the result of repeated nonadherence to the comparability principle. Because of too frequent departures and the debates on methodology as well, it is now an appropriate time to step back and review how and why the wage setting process evolved as it did.

Pre-1970 Period. Prior to 1970, wage increases for the approximately 1.4 million white-collar workers were irregular and based essentially on political rather than personnel management considerations. During the 1923 to 1945 period, rates remained relatively unchanged except for minor adjustments in the late 1920's. Temporary wage reductions occurred during the years of the depression. While adjustments were made during the postwar period, these were primarily cost-of-living increases, which tended to favor workers at the lower end of the salary structure.

By the 1950's, study groups were formed to analyze Federal pay setting methods and, as a result, came up with the theoretical and technical bases for the comparability principle. This pay setting method of comparing Federal wages by job content and responsibility with the same jobs in the private sector had, in effect, been used over 100 years for adjusting blue-collar rates.

The Salary Reform Act of 1962 (Public Law 87-793) established the comparability principle for white-collar workers. Under the 1962 Act, the President was required to submit a report to Congress that compared Federal and private sector rates. New pay schedules required Congressional action and, as frequently happens, both the President and Congress were reluctant to grant the full comparability increase. This, together with an 18-month time lag between the survey data collection and implementation, meant that Federal salaries continued to lag behind private sector firms.

In order to correct these problems, the Federal Salary Act of 1967 marked the next step of actually achieving comparability. Immediate and subsequent increases in 1968 and 1969 were necessary in order to reach full comparability with the private sector by July 1970.

1970 Pay Act. As a way of avoiding past problems of political considerations and pay caps, the Federal Pay Comparability Act of 1970 delegated responsibility for setting pay with the President. Under the legislation, specific guidelines and procedures were set forth for determining pay increases. The Office of Personnel Management has primary responsibility for the survey design, including the occupations and industries to be studied. The Bureau of Labor Statistics then surveys the private sector jobs.

In establishing the Advisory Committee, the framers of the legislation sought recommendations from a body of impartial private citizens with expertise in compensation matters. The Advisory Committee was designated responsibility for reviewing the Administration/Pay Agent report and considering the concerns of Federal unions, the Federal Employees Pay Council, and other employee representatives before making its annual recommendations to the President. Thus, the President has an impartial set of recommendations before him.

Why have I recited past history? I think it is important to recall the efforts and trial and error attempts of the past in order to understand why the current system was developed. The 1970 Act is being breached year after year in the name of expediency, first for inflationary pressures and now because of Federal deficits. The principles underlying the 1970 Act are sound and should be adhered to.

Current Issues

A number of proposals have been made in the FY 1985 budget and elsewhere that affect Federal compensation and, even more importantly, the government's ability to perform efficiently in coming years. It is the Committee's responsibility to discuss these issues and make its views known.

Past and Proposed Pay Increase. The October 1983 increase was delayed 3 months, and the 3.5 percent increase became effective January 1984. This 3.5 percent, on an annualized basis, is 2.6 percent and, after increased insurance premium costs, virtually disappeared. The FY 1985 budget proposes another 3.5 percent increase for white-collar workers and this again would be delayed 3 months. Thus, another 2.6 percent increase. For military personnel, the budget supports a 5.5 percent increase, however. While the Committee would not deny a higher increase to the military, it believes that white-collar and military pay should be linked, as in the past. It should be remembered that in October 1980 the military received 11.7 percent and the next year 14.3 percent while civilians received 9.1 and 4.8 percent, respectively. Effective January 1984, the military received 4 percent and civilians 3.5 percent. Further, recent evidence presented in Congressional hearings indicates that military compensation (pay, allowances and pensions) is higher than for their civilian counterparts at all levels.

The Committee has repeatedly urged the President and Congress to return to the comparability principle and it does so again for decisions affecting the upcoming FY 1985 pay increase.

Methodology Changes. The Office of Personnel Management has developed a set of four approaches to change the current methodology of establishing Federal pay comparability. The Pay Agent's 1983 report reviews each of the four approaches, which include: (1) adjusting for the limited scope of the present survey, (2) using entry rate comparisons, (3) adjusting for the limited information on administrative jobs, and (4) using core salary rates. According to the report, "Had we applied these four changes to compute the pay increase for 1983, it would have resulted in our recommending an increase of slightly less than 4 percent."

In order to fully understand these changes, technical staff of the Committee and OPM met to discuss these approaches. As an outcome of the meetings, the Committee sent a letter to members of the Pay Agent, accompanied by a report analyzing the technical aspects of the changes. The letter and report are attached, and we request they be made part of this official record.

Our letter expresses concerns about the proposals, ". . . an obvious overweighting of small establishments with characteristics both in function and complexity totally unlike that of the Federal Government." These comparisons "base the pay rates on the lowest quartile, which has the effect of comparing the Federal Government to marginal firms that can attract only the least talented."

The Committee also points out that the 1970 Act's intent was to base pay on averages, not entry level rates. Further, the Committee stated that other improvements in the survey had not been considered by OPM, "Briefly, these include adjusting for the delay between the survey date and the time the increase is implemented, originally a 6-month delay but now 9 months; the omission of the role of bonuses in compensation; . . . calculations of fringe benefits; private sector wages; as well as a list of others that could be mentioned." The Committee continued by saying that it is "seriously concerned that OPM's technical revisions, and the questions they raise, could have long reaching adverse effects on the government's efficiency. We urge that the Office of Personnel Management, along with other Pay Agent members, hold hearings with members of the Federal Employees Pay Council and Federal employee representatives, in accordance with the Pay Act. The Committee believes that if this step is omitted it would be a serious mistake."

Proposed Pension Changes. The FY 1985 budget proposes a number of changes in the cost-of-living adjustments received by current retirees. The budget provides that the COLAs granted would be the lesser of the Federal white-collar pay increase or the increase in the Consumer Price Index. For a long time, the Committee has stated that retiree increases that were greater than wage increases for those employed was unfair. The Committee still believes this principle is valid; however, the white-collar wage increases have been suppressed well below the CPI gains and increases shown in the BLS Annual Survey of Professional, Administrative, Technical, and Clerical Pay (PATC). In the 1970 to 1980 period, Federal white-collar salaries increased by 104 percent compared with the CPI's rise of 153 percent. The PATC survey showed justifiable increases amounting to 136 percent. White-collar pay has been adjusted arbitrarily without any relationship to pay or price trends and such arbitrariness should not also be applied to retirees' increases. Rather, it would be appropriate to develop a cost-of-living index for retirees, taking into account their needs, before adopting the proposed action.

Similarly, the budget proposes to grant the full COLA or wage increase amount to those with annuities under $10,000 but limit to 55 percent of the increase for annuities over $10,000. It should be repeated that pay increases on which pensions are based have been repeatedly held down, and this places middle and upper income earners at a double disadvantage. If they are to receive 55 percent of the 3.5 percent increase, or 1.6 percent, without even calculating the timing delays proposed, their annuities will basically be unchanged from year to year.

As another way of cutting deficits, the budget proposes raising employee pension contributions from the current 7 percent of gross pay to 8 percent in 1985 and 9 percent in 1986. Such increases would indeed wipe out any pay gains. The Committee believes that these proposed increased contributions are unfounded in any objective reasoning or analysis but are merely proposed as a way of cutting budget costs and hurting employee performance.

Committee's 1983 Recommendations

Let me now return to the Committee's recommendations for the October 1983 pay increase. I have copies of the report and request that this be included as part of the official record. The Pay Agent's 1983 report showed that the difference between Federal salaries and their private sector counterparts was 21.5 percent. This 21.5 percent includes two components. The BLS survey of the private sector showed that pay increases granted during the first 6 months of 1983 averaged 7.1 percent, although increases varied by occupation. In addition, lower salary increases than those dictated by the comparability data have been implemented for Federal workers during the preceding 5-year period. Thus, the combination of not paying the full amount in previous years plus the current 1983 private sector increases produced the 21.5 percent increase. As I have noted, the actual increase granted was 3.5 percent, delayed to January 1984, or an annualized 2.6 percent.

The Committee recommended that the current guesses, estimates, and questions about the methodology of the survey be set aside and that a comprehensive survey be conducted every 2 or 3 years. In the interim years, adjustments would be based on another acceptable and defined statistical source, such as the BLS Employment Cost Index. Because of the controversy surrounding the pay survey and Federal pay and compensation in general, the Committee strongly urged that the President establish a Federal Compensation Commission similar in mandate and composition to the Rockefeller Panel on Federal Compensation.

The Committee also outlined a series of steps that should be considered in changing personnel policies and practices, especially those that would change merit pay and reduction-in-force procedures. While these changes have not been implemented because of court action, we believe that the principles outlined are useful and applicable to any major personnel change.

Budget and Personnel

The appropriation request for our Committee for Fiscal Year 1985 is $220,000, or $5,000 more than our appropriation for Fiscal Year 1984. Based on increases in GSA support services and other expenses, the $220,000 requested maintains operations at the current level. It will cover salaries and benefits of three full-time employees: an economist (executive director) a staff assistant, and a secretary; rent and operating expenses of our headquarters offices; and salaries and travel expenses of the Committee members when they are engaged in Committee work.

Our mediation role between the Pay Agent and representatives of the Federal Employees Pay Council was resumed temporarily (mandated under Executive Order 12004). After a lapse of 5 years and the Council's resignation in 1978 in protest over an alternative pay plan, meetings were held in July and December 1982 and again on February 9, 1983. Because of disagreement surrounding OPM's proposed methodology changes for computing comparability, discussions were terminated. In its role as mediator, however, the Committee sought to promote a continuing dialogue, but found that their positions were too diverse to bridge.

As is our mandate under the 1970 Act, we meet with representatives of the Federal Employees Pay Council and other employee organization representatives before preparing our report to the President. Their views are incorporated in our report and were instrumental in forming our recommendations.

The Committee has always exercised financial restraint and has held back on spending. We are a small agency with funds tightly allocated, and our request includes no contingency funds for staff or unanticipated problems or studies. Our current staff will spend as much time as possible analyzing the current issues mentioned, including the proposed methodology revisions and changes in the civilian retirement program.

APPENDIX

Authority for the Committee

The Federal Pay Comparability Act of 1970 established the Advisory Committee on Federal Pay. The Committee was given responsibility to:

"(1) review the annual report of the President's agent;

"(2) consider such further views and recommendations with respect to the analysis and pay proposals contained in the annual report of the President's agent as may be presented to it in writing by employee organizations, the President's agent, or other officials of the Government of the United States, and such experts as it may consult; and

"(3) report its findings and recommendations to the President."

Recommendations of the President's Panel on Federal Compensation in December 1975 and an Executive Order signed on July 20, 1977, expanded the Committee's original responsibilities. These changes charged the Committee to act as a third party to improve the pay decision process between the President's Pay Agent and organizations representing Federal employees and with making longer term policy recommendations regarding Federal pay policy, to consider the impact of Federal pay on the national economy, and to advise on changes that should be proposed in Federal compensation policies and practices.

REPORT ON THE FISCAL 1984 PAY INCREASE UNDER THE FEDERAL STATUTORY PAY SYSTEMS

September 22, 1983

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

The Advisory Committee on Federal Pay has the honor of submitting to you its twelfth annual report. The report incorporates the Committee's findings and recommendations with respect to the Fiscal 1984 pay adjustment for approximately 1.4 million federal civilian employees.

The Committee must express its disappointment and regret for being unable to meet with two principals of the Pay Agent. Neither Director of the Office of Management and Budget David Stockman nor Secretary of Labor Raymond Donovan has been available to meet with us over the past two years. The Committee members are even more concerned that they have been unable to meet with you, Mr. President. During the 12 years as a Presidential advisory body, it has had the privilege of discussing its views with Presidents Nixon, Ford, and Carter.

The Committee hopes, however, that its recommendations will prove useful to you in arriving at some very important decisions which will affect the federal work force for years to come.

Respectfully submitted,

Eva Robins.

Eva Robins
Member

Frank G. Zarb
Member

Jerome M Rosow

Jerome M. Rosow
Chairman

I. INTRODUCTION

The Federal Pay Comparability Act of 1970 (P.L. 91-656) requires the Advisory Committee on Federal Pay to report annually to the President on its views and recommendations for pay increases. These increases are for the approximately 1.4 million white-collar workers in the Executive Branch of the government. The Veterans Administration's Department of Medicine and Surgery, the Foreign Service, and the military are also linked to the white-collar pay increase. In addition, blue-collar workers, whose pay is set by the Federal Prevailing Rate Systems Act of 1972, have been capped at the white-collar pay increase since October 1978. The Committee believes that its responsibility continues this year, despite the fact that a 3.5-percent pay increase, effective January 1984, has been recommended by the President. Congress has supported a

4-percent pay increase for January 1984 and the final decision had not yet been made when this report was written.

This year marks the sixth consecutive year that the comparability principle has been breached (see table 1). There was a time when pay decisions were determined solely by the political process. It is apparent that the system is regressing to the pre-1970 (or even to the pre-1962) period, when comparability first was outlined and then became the guiding concept. The Committee believes that this drifting back leads to arbitrariness and poor personnel policies. In the public sector as well as in the private sector, the ability to attract, employ and retain capable people depends on pay and benefit programs and on the employer's reputation for good faith and equitable and reasonable treatment.

In a time when federal policy makers are looking to the private sector for models of excellence to apply to government, an essential element for effective organizations is being ignored--namely, the significance of the human resources to government productivity. The result is clear to the federal worker: Morale has fallen severely and will continue to do so as long as pay, job security, pensions, insurance and other working conditions are threatened with radical change. Fear and uncertainty are generated when unilateral actions are taken to revise established and time-tested practices.

We do not consider the proposed far ranging personnel reforms to be motivated or intended as an attack on Federal employees. But the Committee believes that all changes and desired results may be jeopardized if they are perceived to have been arbitrary or accomplished without regard to the deep effect on peoples' lives, earning abilities, securities, and future.

II. THE 1983 PAY INCREASE

The Pay Agent's report indicates that, on average, a pay increase of 21.5 percent (with pay uncapped) would be granted in October if the comparability principle had been permitted to operate. The increases should have ranged from 17.82 percent at the GS-8 level to 36.27 percent for GS-15 (see table 2). This large pay gap is the result of past and current decisions to discount the comparability increases required by the law. Last year's pay increase of 4 percent left a 14-percent gap, and BLS's 1983 survey of pay increases for private sector occupations shows an average increase of 7 percent. When these increases are matched against the federal work force's average pay, a current gap of 21.5 percent is the result.

The Committee concurs with the Pay Agent's findings that the appropriate adjustment is 21.5 percent and endorses the salary rates presented in table 3 of the Agent's report (see Appendix 1). The Committee is aware that the Agent places the cost of implementing the average 21.5 percent adjustment at $8.1 billion for the General Schedule, an additional $8.6 billion for the military and, when added to the other pay systems normally linked to the General Schedule adjustments, requires a total expenditure of $17.4 billion. This high cost would be incurred at a time of enormous budget deficits; yet it is critical to the national defense and long-run security that both civilian and military employees not be penalized by fiscal problems which are external to the pay system.

Long-term budget deficits prompted the President to signal an intention to freeze pay this October. Instead, the President's alternative pay plan did provide for a 3.5-percent rise in January 1984. Based on an annualized computation, this is a 2.6-percent pay increase, or about 10 percent of the adjustment required! The situation will become progressively worse next year (see table 3). The national interest is best served when pay is allowed to follow the comparability principle. Continued departures aggravate the pay gap problems, lead to lower morale and reduced productivity and damage the reputation of the federal government as a desirable employer.

The pay increase for federal workers is debated annually. Perceived technical problems with the methodology add to this controversy. In Section VI of this report we will recommend that a measurement be adopted from acceptable statistical sources to determine the adjustment for each year. It does not appear that a full annual survey is required to determine the adjustment needed to attain comparability each year. Instead, in the interest of cost saving, an extensive survey of professional, administrative, technical, executive and clerical rates could be conducted once every two or three years.

III. MAJOR PROBLEMS WITH CURRENT METHODOLOGY

In its recent report, the Pay Agent noted that it had promised to review various new methodologies for setting pay. Eight approaches were presented to members of the Federal Employees Pay Council in December 1982. After discussing these and other issues during a February 1983 meeting, the Council requested a "recess" of discussions with the Pay Agent and have not met with the Pay Agent since.

The 1983 Pay Agent report suggests four new weighting techniques:

> "1. Adjusting for the Limited Scope of the Present Survey [weighting PATC salaries by the County Business Patterns establishment size classes] . . ."
>
> "2. Using Entry Rate Comparisons . . .
>
> "3. Adjusting for the Limited Information on Administrative Jobs . . . salary averages for GS-5 administrative jobs in the PATC Survey could be adjusted by the intergrade differentials for other jobs now surveyed at GS-7 through GS-15 to produce a more realistic set of pay rates.
>
> "4. Using Core Salary Rates . . . Eliminating 10 percent of the lowest and the highest PATC salaries from each of the classes . . ."

The report also states that "Had we applied these four changes to compute the pay increase for 1983, it would have resulted in our recommending an increase of slightly less than 4 percent."

It appears that the Office of Personnel Management is continuing to pursue a course of action similar to the one that led to the rupture of relationships between the Pay Agent and the Federal Employees Pay Council. It offered eight pay setting techniques or processes which, for the most part, are not used in the private sector. Further, it has continued to introduce these statistical techniques without testing, validation, or the opportunity for consultation.

The established method for computing the payline has been adjusted and refined over the years. This has been done in consultation with the Federal Employees Pay Council, although the Pay Agent has retained unilateral and final decision-making power. Over the years, the survey has been expanded to include additional jobs, broader geographical and industry coverage, and reduced establishment size.

The consultation process and the sharing of statistical data ended in 1983, to be replaced by a unilaterally controlled system in the hands of the OPM. Fortunately, the Pay Agent did not endorse the change and insisted that the OPM use the accepted method to develop this year's payline. But the Committee would be concerned about a departure from practice without a showing of benefit and without an adequate showing of need.

Any future consideration to changing this major statistical index should be accomplished with full public disclosure and hearings. The Bureau of Labor Statistics, for example, in adjusting a major index, discusses and seeks recommendations from its Business and Labor Advisory Committees and provides prior public notices. In many cases, announcements are made three years in advance and the old and new indexes are published side by side. Similar safeguards are critical to any fundamental change in the comparability pay setting system if it is to retain credibility.

IV. VIEWS OF EMPLOYEE ORGANIZATIONS

In accordance with established Committee practice, members of the Pay Council and representatives of employee organizations were invited to present their views regarding the Pay Agent report and other issues affecting pay and benefits. Representatives who appeared before the Committee were frustrated by their inability to respond fully because of the delay in receiving information from the Pay Agent. Appendix 2 lists the organizations attending. The Committee regrets the decision to provide only a covering letter, the BLS PATC survey release, and table 3 of the Agent report, showing the payline. This is a breach of custom and practice, is discourteous and counter-productive.

This year the representatives were concerned about the overwhelming number of pay, benefit, and job security issues that have been proposed for change. Many aspects of Federal pay, working conditions, and benefits have been criticized by OPM as being too generous. Proposals have been made to reduce government expenditures for the federal employee retirement system and the health insurance program by increasing employee contributions while simultaneously cutting benefits. OPM has proposed a new performance appraisal system and seeks to limit collective bargaining. The concerns, as expressed by employee representatives, included:

- The pay gap, which is growing so wide as to prevent correction, is spreading doubt about the durability of the comparability principle. All employees, military, blue-collar and white-collar, are suffering pay erosion as a result of repeated use of pay "discounts" under alternative plans.

- The Non Commissioned Officers Association of the United States stated their opposition to delinking military pay from the white-collar system. Representing 250,000 members, the organization believes that pay treatment for the military is cyclical and that an established linkage is the preferable long-term method for setting pay.

- New employees, effective January 1984, will be required to pay 14 percent of their gross salary into Social Security and the current federal retirement system; yet the benefits they will receive are undermined. Payment for the Civil Service Retirement System, 7 percent, plus the 21.5-percent gap, places the government at a 28.5 percent disadvantage in its current recruiting efforts. An estimated 400,000 individuals will be needed to fill vacancies in fiscal years 1984 and 1985, yet this issue is not high on the list of Congressional priorities and it may be one or two years before a supplemental pension plan is developed.

- While both recruiting and the quality of recruitment is now high, the economic upturn will change the current picture and the federal government will be providing training to employees who will promptly leave. By way of example, the Naval Civilian Administrators Association noted that the average salary for engineers is $25,600, as shown in the private sector data collected by BLS. By contrast, the actual beginning GS-5, Step 10 engineer rate is $17,400. Because of the economic downturn, recruiting over the past two years has surpassed previous periods, but they fear that the government is investing in training that will be valueless when the economy recovers and these employees leave for higher pay elsewhere.

- The Federal Executive and Professional Association, with 23 affiliated organizations, recommends a number of long-term proposals, including separating the pay system for professionals, based on a national scale, and for clerical workers, based on local pay scales. This thoughtful set of recommendations looks to the future and has been attached as Appendix 3 to this report. It recommends that "Deviations from comparability should be invoked only in national emergencies so severe that the Congress and President impose wage, price and rent controls on the public generally."

— Because of the criticism of employee pay and benefits and the pending or proposed changes, morale is at an all-time low, hastening the exit for those who are eligible to retire. As a result, the government is losing part of its institutional memory and its investment in key management personnel.

— The Federal Employees Pay Council expressed dissatisfaction with the "Performance Based Incentive System" (PBIS), designed to diminish the importance of seniority in reductions-in-force and increase the emphasis on "merit." These threats to the personnel system are seen as inseparable from the problems of pay and comparability. The Office of Personnel Management spearheads these attacks and is viewed as the major source of problems for employees and their union representatives. The Council organizations have been forced to accelerate lobbying efforts rather than conduct bilateral discussions with the Executive Branch. The organizations point to the Mathias amendment (a 75 to 18 vote) as evidence of their efforts which succeeded in postponing the implementation date of the PBIS system from August 15 to October 15, 1983, in the hope that the plan will be modified by Congress.

The Committee believes that the breakdown of communication between OPM and employees and their organizations is unfortunate and counter-productive to good government. This is the first time in recent history when, on virtually every issue, dialogue within the Executive Branch of government has failed. Employees and their representatives see the only recourse as an appeal to Congress. Further, persistent refusal to consider seriously employee complaints and concerns is inconsistent with the intent of the law. The Federal Pay Comparability Act of 1970 states that the President's Pay

Agent shall:

> "(2) provide for meetings with the Federal Employees Pay Council and give thorough consideration to the views and recommendations of the Council and the individual views and recommendations, if any, of the members of the Council regarding—
>
> > "(A) the coverage of the annual survey conducted by the Bureau of Labor Statistics . . .;
> >
> > "(B) the process of comparing the rates of pay of the statutory pay systems with rates of pay for the same levels of work in private enterprise; and
> >
> > "(C) the adjustments in the rates of pay of the statutory pay systems that should be made to achieve comparability between those rates and the rates of pay for the same levels of work in private enterprise;
>
> "(3) give thorough consideration to the views and recommendations of employee organizations not represented on the Federal Employees Pay Council regarding the subjects in [the above] paragraph . . ."

While it was the Federal Employees Pay Council which cut off further discussions, the employee organizations believe the OPM was inflexible and arbitrary. This belief does not contribute to a productive relationship between the Executive Department and the employee organizations.

In summary, the meetings produced a series of pessimistic and discouraging responses from the employee unions and the professional organizations. The expressed frustration was widespread. The recent increase in the effort to lobby the Congress and the shift of emphasis from the Executive to the Legislative branches of government were inevitable results of the disillusionment felt by the organizations.

V. PRINCIPLES INVOLVED IN REFORM OF PERSONNEL SYSTEMS

The President's commitment to more effective government has been offered as the basic reason for the efforts of the Administration's various suggestions for reformation of the Civil Service. The federal work force is hugh and questions of pay comparability and worth are extraordinarily complex. The Committee recognizes, of course, the on-going need of government's policy-makers to review the performance of its enormous work force in the public and quasi-public service and to aim for improvement in performance and productivity. But improved performance and increased productivity do not exist in a vacuum. Fundamentally, productivity is a function of management. The conditions of the direction of the work force require a balance of defined and appropriate goals and objectives, wise policy-making aimed at reaching those goals; a method of measuring and improving performance; a communications system between management at the top and all other levels of supervision and management; and a communications system between employees and their organizations and all of those levels of supervision and management. It requires constant evaluation of the achievements of management in developing appropriate and sophisticated means of measuring productivity and its improvement and of improving performance without losing the value of the employees' dedication.

We do not consider that reform of the Civil Service is motivated or intended as an attack on the federal employees. Similar efforts have been made by almost every administration. Those efforts vary in the severity of their impact on the federal employees and their families. The specific changes envisioned by any administration must be examined carefully, to determine if they are, indeed, needed reforms, or are change for the sake of change, based more on myth than on proven fact. And even as to "needed" reforms, there are grave questions deserving the most careful scrutiny--questions as to the depth of the changes and the need for the Draconian measures proposed; the timing of those changes; the unilateral nature of the changes being initiated or proposed; the inequities fostered by some changes. While some reforms may be laudable, even overdue, others may be untimely or inconsistent with the ability of government adequately and properly to render its services.

The Committee believes that all changes may be jeopardized if some or most of them are perceived to have been adopted arbitrarily or without regard for the massive effect on peoples' lives, earning abilities, security and futures. It appears to the Committee that an appropriate way to avoid this would be to take into account the judgment of all affected people or organizations, to reveal the reasons for each of the changes proposed, state fully the goals each change is expected to achieve, and to estimate how that goal will be realized.

As in the private sector, when massive changes are contemplated, it is considered necessary to establish guidelines for the evaluation of need, the goals intended to be achieved, the available options for achieving those goals, the measurement of the quality of those options and their impact on the employees, managers and the enterprise. For these purposes, it is not enough to talk only of economic benefit, although, of course, that must be assessed carefully.

The principles we would suggest, for the purpose of guiding the Executive Branch of government in its exploration of efforts at efficient and productive operations, are described below:

1. Self-Imposed Impartial Safeguards

To assure that the broad powers of the Executive Branch over the Civil Service be exercised with knowledge, equity and reasonable restraint and be based on proven need, we think there must be self-imposed safeguards. They should include, among others deemed desirable, the following:

(a) Examination by impartial persons or agencies of current systems of job description, recruiting, entry pay, levels of pay, promotional opportunities, benefit levels, employee contributions to benefit costs, retirement plans, cost of living aspects of pay and pensions, etc.

(b) Clear and impartial studies made as to possible utilization of performance standards, measurements of productivity, evaluations, staffing standards.

(c) Clear and impartial studies made as to pay systems, appropriate means of recognizing growth, promotional opportunities, rewards for merit, etc.

(d) Analysis of options dealing with:

(i) employment
(ii) pay
(iii) benefits
(iv) recognition of merit, promotional opportunity, etc.
(v) retirement and pensions
(vi) other aspects of federal employment .

2. Cost Benefit Analyses

In considering possible changes, evaluation should be made as to the benefits expected to be achieved, the cost of the changes themselves, the expected savings if the modified systems work out as planned, the anticipated duration of those savings, probable effect of changes on morale of employees and management and other pertinent questions.

3. Management and Supervisory Support

The potential for management and supervisory support of the changes should be measured carefully and any weak spots identified and taken into account. It is imperative that there be early involvement of management and supervisory forces in the planning for changes as well as in the identification of change and its effectuation.

4. Employee/Union Participation

There should be opportunity for employee and employee organization discussions with the impartial bodies making the studies and with the Executive Branch personnel in charge of the studies. In addition, the kinds of changes which may be possible should be examined and discussed by employees and unions with the Executive Branch personnel making the studies.

5. Productive and Open Communication

Lines of communication should be established early in the preparation of the studies and kept open and productive throughout. Neither studies nor reform plans have an opportunity for success if they are conducted or imposed without communication between the Executive Branch and the employee and union representatives. A steady commitment to communication is essential.

6. Adequate Lead Time

The timing of each step of the studies and development of plans is vital. Adequate lead time is needed so that there will be opportunity for review and discussion before transition is attempted.

7. On-Going Review

Even after the changes are tentatively decided upon, and after adequate consultation with the employees and their organizations, there is a need to provide for reviews of progress from time to time, to measure results against goals.

VI. FINDINGS AND RECOMMENDATIONS

1. The President has announced an alternative plan to adjust federal pay by 3.5 percent on January 1, 1984, but the Committee believes that the full comparability increase of 21.5 percent is appropriate. Unquestionably, a large pay deficit exists. We recommend it be eliminated. The perpetuation of that deficit might present a substantial current savings to the government in the short term, but is building heavy future costs into the system, accompanied by a costly reduction in efficiency and low morale.

2. Following upon this restoration of comparability, we recommend that the current guesses, estimates and questions about the methodology of the survey be put to rest. We believe a comprehensive survey could be conducted every two or three years, with standards to be adopted by the non-partisan commission of the kind described in Recommendation No. 5 herein. Such a commission would solicit the views of agencies of the Executive Branch such as OPM and OMB, of the professional organizations and unions representing employees, and other interested parties. If this kind of comprehensive study were decided upon, we recommend that a regular measurement be adopted from acceptable and defined statistical sources, to determine if annual pay adjustments are required for comparability purposes.

3. The great number and variety of severe changes in personnel policies and practices now being proposed have taken the federal establishment by surprise and provide shocks to the stability of employee performance. The current proposal to change pay-fixing methods, revise job security provisions of the Civil Service, reduce pensions, modify merit pay treatment and tighten promotion standards cuts across the entire spectrum of the government's relationship with its employees.

   The approach taken by the Office of Personnel Management is perceived as unilateral and arbitrary. It is not conducive to the fulfillment of the basic objective of improving the long-term effectiveness of the government. In view of the serious and intensive nature of these proposed changes, we recommend that the Executive Branch take steps to develop a consensus among the Executive Branch, the managerial forces in all agencies, all employees and their representatives, and the Congress.

4. The novel and untested statistical concepts proposed by the Office of Personnel Management with regard to the computation of the payline are without precedent or validation. The potential importance of these statistical changes is so far-reaching that it warrants much more time for consultation, field testing, and trial applications, in

order for the final decision to be seen as fair and equitable. We recommend that course of action.

5. We have recommended and we again recommend that the President establish a Federal Compensation Commission, chaired by an outstanding, highly regarded person from the private sector and that this body's membership include persons from the Legislative and Judicial Branches of government. In the tradition of the Rockefeller Panel on Federal Compensation, this Commission would have the responsibility for reviewing federal pay and benefits affecting all white-collar workers in the Executive, Legislative, and Judicial Branches of government.

6. The integration of Social Security with federal pensions for new employees hired effective January 1, 1984 has been hastily established without defining a pension plan for these prospective employees. The required 14-percent contribution will have a negative effect on take-home pay, create a double standard and antagonisms within the work force, and have adverse effects on quality recruitment. We urge the President to submit pension legislation in this session of Congress for enactment in early 1984. At a minimum, the Committee urges Congress to exempt new employees from paying into the current Civil Service Retirement System but suggests that the government continue its contribution into the fund.

Respectfully submitted,

Eva Robins.

Eva Robins
Member

Frank G. Zarb
Member

Jerome M. Rosow

Jerome M. Rosow
Chairman

Table 1. Chronology of General Schedule Salary Increases, January 1971 to January 1984

Date	Recommended by Agent-- Average	Recommended by Agent-- Range	Put into effect-- Average	Put into effect-- Range--	Remarks
January 1971	5.96%	None	5.96%	None	Comparability measurement in effect at time called for no variation by grade.
January 1972	6.6	None	5.5	None	Economic Stabilization Act reduced increase below comparability.
October 1972	5.14	None	5.14	None	Strict comparability called for increases from 3.5 to 7.9 percent. Court overturned postponement to January 1973, proposed by President.
October 1973	4.77	4.55-5.25%	4.77	4.55-5.25%	Congress overrode alternative plan delay to December.
October 1974	5.52	5.46-5.59	5.52	5.46-5.59	Congress overrode alternative plan delay to January.
October 1975	8.66	None	5.0	None	Alternative plan not overridden.
October 1976	5.17	4.24-1/8.98	5.17	4.24-8.98	
October 1977	7.05	None	7.05	None	Strict comparability called for increases from 6.26 to 9.8 percent. Uniform percentage increase agreed to by Pay Agent and Federal Employees Pay Council.
October 1978	8.4	6.14-1/13.27	5.5	None	Alternative plan not overridden.
October 1979	10.38	8.8-1/15.43	7.0	7.0-2/9.89	Alternative plan not overridden.
October 1980	3/12.69	10.2-1/20.91	9.1	9.1-4/10.41	Alternative plan not overridden.
October 1981	15.1	12.08-1/23.33	4.8	None	Budget reconciliation provided increase.
October 1982	5/17.1	14.98-1/31.07	4.0	None	Alternative plan not overridden.
January 1984	21.5	17.82-1/36.25	3.5	None	President's alternative plan (final Congressional action not known by September 1983.)

1/ Maximum increase permitted under existing ceiling.
2/ Increases in excess of 7 percent given only to Grades 1 and 2.
3/ 13.46 percent, assuming ceiling is raised.
4/ Increases in excess of 9.1 percent given only to Grades 1 and 2.
5/ 18.5 percent, assuming ceiling is raised.

NOTE: Historically, wages for blue-collar Appropriated Fund employees (450,000) have been based on 135 individual geographical wage surveys conducted by both union and agency representatives. For Nonappropriated Fund employees (170,000), surveys are conducted in 142 areas. Although surveys have been conducted, blue-collar workers have been subject to the same wage cap, by Congressional action, as white-collar workers since October 1978. Where survey results show lower increases than the cap, the lower were implemented

Prior to 1980, military pay was linked to white-collar increases. In October 1980, however, they received 11.7 percent and in October 1981, 14.3 percent. By October 1982, the link was re-established.

SOURCE: "A Decade of Federal White-Collar Pay Comparability, 1970-1980," an Advisory Committee on Federal Pay report, updated.

Table 2. Increases in General Schedule Pay Needed in October 1983 for Comparability With March 1983 Private Enterprise Rates 1/

GS Grade	Comparability gap-- Percent of private sector pay	Comparability gap-- Dollars	Step 1 pay levels to provide comparability
1	21.45%	$ 1,863	$10,539
2	20.07	1,958	11,714
3	22.20	2,363	13,008
4	20.69	2,473	14,422
5	19.51	2,607	15,976
6	18.64	2,777	17,678
7	18.08	2,993	19,552
8	17.82	3,269	21,608
9	17.87	3,620	23,876
10	18.22	4,065	26,372
11	18.88	4,627	29,135
12	21.13	6,204	35,580
13	24.69	8,625	43,555
14	29.69	12,253	53,530
15	36.27	17,610	66,163
Average	2/ 21.51		

1/ Before the proposed 3.5-percent pay increase.
2/ Assumes the statutory ceiling is raised.

Table 3. Percent Increase of General Schedule Salary Scales Needed for Comparability With Private Sector, 1/ Selected Grades and Dates

Date	GS-1	GS-5	GS-11	GS-15	Average, all grades
January—					
1971 ——	0	0	0	0	0
1972 ——	1.1	1.1	1.1	1.1	1.1
October—					
1972 ——	1.63 above	.81 above	.48	2.29	0
1973 ——	0	0	0	0	0
1974 ——	0	0	0	0	0
1975 ——	3.10	3.40	3.86	4.50	3.4
1976 ——	0	0	0	0	0
1977 ——	.03	.71 above	.38 above	2.80	0
1978 ——	.62	.86	2.53	7.37	2.7
1979 ——	0	1.73	2.52	7.9	3.1
1980 ——	0	2.1	2.9	10.8	3.3
1981 ——	7.56	6.95	8.98	17.68	9.8
1982 2/ —	12.9	11.88	11.51	26.03	13.9
1983 3/ —	17.4	15.5	14.9	31.7	17.4

1/ Based on Step 1 rates; comparability as computed by Pay Agent on the basis of BLS data for the private sector as of April of each year in which Federal pay increase was effective in October (as of preceding June in case of Federal increases effective in January). Gaps apply only to the year in which they are shown and are not cumulative.

2/ After a 4-percent across-the-board increase in October 1982.

3/ After a 3.5-percent across-the-board increase to be granted January 1984, not annualized.

SOURCE: Advisory Committee on Federal Pay's report, "A Decade of Federal White-Collar Pay Comparability, 1970-80," updated

Table 4. Changes in Federal Pay Compared With Changes in Other Pay Scales and the Consumer Price Index, 1970-1982

Measure	Percent increase, 1970-82	Estimated addition to Fiscal 1983 Federal compensation costs if white-collar pay had increased at the same rate as other measures (billions of dollars)
Federal white-collar salary scales:		
Actual increase ———————	104	-
With full comparability ————	128	$ 4.6
If other measures were used:		
Postal pay scales ———————	216	21.7
Consumer Price Index ———————	153	9.5
Federal blue-collar pay:		
Actual increase ———————	154	9.7
Without alternative plan limit ———	168	12.4
Private sector white-collar pay as measured by BLS ———————	136	6.2
Military pay ———————	139	6.8

APPENDIX 1

Table 3

General Schedule Rates to Provide Comparability with 1983 Private Enterprise Pay

	1	2	3	4	5	6	7	8	9	10
GS-1	$ 10,539	$ 10,890	$ 11,241	$ 11,592	$ 11,943	$ 12,294	$ 12,645	$ 12,996	$ 13,347	$ 13,698
2	11,714	12,104	12,494	12,884	13,274	13,664	14,054	14,444	14,834	15,224
3	13,008	13,442	13,876	14,310	14,744	15,178	15,612	16,046	16,480	16,914
4	14,422	14,903	15,384	15,865	16,346	16,827	17,308	17,789	18,270	18,751
5	15,976	16,509	17,042	17,575	18,108	18,641	19,174	19,707	20,240	20,773
6	17,678	18,267	18,856	19,445	20,034	20,623	21,212	21,801	22,390	22,979
7	19,552	20,204	20,856	21,508	22,160	22,812	23,464	24,116	24,768	25,420
8	21,608	22,328	23,048	23,768	24,488	25,208	25,928	26,648	27,368	28,088
9	23,876	24,672	25,468	26,264	27,060	27,856	28,652	29,448	30,244	31,040
10	26,372	27,251	28,130	29,009	29,888	30,767	31,646	32,525	33,404	34,283
11	29,135	30,106	31,077	32,048	33,019	33,990	34,961	35,932	36,903	37,874
12	35,580	36,766	37,952	39,138	40,324	41,510	42,696	43,882	45,068	46,254
13	43,555	45,007	46,459	47,911	49,363	50,815	52,267	53,719	55,171	56,623
14	53,530	55,314	57,098	58,882	60,666	62,450	64,234	66,018	67,802	69,586
15	66,163	68,368	70,573	72,778	74,983	77,188	79,393*	81,598*	83,803*	86,008*
16	77,600*	80,187*	82,774*	85,361*	87,948*	90,535*	93,122*	95,709*	98,296*	
17	90,903*	93,933*	96,963*	99,993*	103,023*					
18	106,542*									

* The rate of basic pay payable to employees at these rates is limited to the rate payable for level V of the Executive Schedule, which is $ 77,500.

SOURCE: Pay Agent's 1983 report.

APPENDIX 2

ORGANIZATIONS DISCUSSING THE PRESIDENT'S AGENT'S REPORT WITH THE ADVISORY COMMITTEE ON FEDERAL PAY

Federal Employees Pay Council

American Federation of Government Employees--
George Hobt

National Federation of Federal Employees--
David Gusky

Other Employee Organizations

Federal Bar Association--
Jay Reining

Federal Executive and Professional Association and the Naval Civilian Administrators Association--
Richard Pelz
Jack Day

The Non Commissioned Officers Association of the United States--
C. A. McKinney

Organization of Professional Employees of the U.S. Department of Agriculture--
Walter John

FEPA letter of 7/10/83

APPENDIX 3

April 1983

COMPENSATION
OF
FEDERAL EXECUTIVE AND PROFESSIONAL EMPLOYEES

PURPOSE:

Career professional personnel, including managers, are not only the largest and most important category of Federal workers, they are a national treasure, the Government's most precious asset. Adequate compensation is only one part of the obligation of the Government as employer to attract and motivate these people, but it is a vital part. Fairness to professionals serving the United States and also to American citizens demands maintenance of a reliable and continuing system that will ensure comparability of Federal compensation with that in the private sector, taking fully into account that the Federal service contains a much higher proportion of professional, managerial and other high-talent occupations than exists in all but small segments of non-Federal employment.

PRINCIPLE:

The total compensation, pay plus benefits, of Federal government employees should be comparable to that of peers outside of Federal government employment including private enterprise and state and local government.

COROLLARIES:

- The pay and benefit systems for professionals should be separate from those of non professionals. (Professionals include: scientists; practitioners such as physicians, engineers or attorneys, and managers including executives or administrators).
- Pay and benefit systems for professional occupations should be national in scope.
- Provision should be made for special schedules of pay and benefits as required; including schedules for hazardous, and hardship posts, occupations having no private counterparts, difficult-to-fill occupations, and other purposes requiring separate attention.
- Compensation levels for Federal executives should be high enough to attract and retain top quality management skills and the increment between compensation for these and lower level positions should provide an incentive to take on managerial responsibilities.
- Systematic comparability pay adjustments should be prompt, with compensation adjusted for the delay due to processing essential Bureau of Labor Statistics surveys.
- Deviations from comparability should be invoked only in national emergencies so severe that the Congress and President impose wage, price and rent controls on the public generally.

COMMENTS:

Total Compensation Comparability

The total-Compensation-Comparabiity concept for setting and adjusting the pay and benefits of Federal employees for the first time establishes an overall compensation policy for the Federal service. It would assure that government and private rates are competitive with each other and at a level that is both fair and adequate to motivate a well-qualified work force. It would assure greater credibility for the Federal compensation program both within the government and in the non-Federal sector. An essential objective of this principle is that Total Compensation Comparability embrace the full range of pay and benefits available to employees in both the Federal and non-Federal sectors

Legislation should be enacted to develop and test total compensation comparability systems for Federal employees. There should be a guiding overall objective of making total compensation comparable with that of the private sector. The difficulties (of developing comprehensive integrated pay-benefit package systems to replace the variety of existing pay systems and the benefit systems now in effect for Federal employees) suggest that initially benefit comparability and pay comparability can best be achieved independently. Aside from technical difficulties, benefits, including deferred compensation,and current compensation, are not interchangeable as motivating factors in improving employee performance and attracting highly qualified employees. Ultimately several well-optimized systems may emerge.

Compensation for Professionals vs Non-Professionals

Motivation and reward of professionals are generally different from those of non-professionals. Mountains of evidence confirm the contrasts between the two. A good example is that professionals are recruited from a nationwide labor market while non professionals are not. Laborers, craftsmen, technicians or clerical workers are better motivated by compensation systems much different from those that are optimum for the professionals. Serious studies reach but one conclusion; pay systems for professionals will be far more effective if they are tailored to the needs, aspirations and stimulii of professionals.

Equitable Pay for Federal Professionals

It is recommended that the Federal government continue a nationwide pay system for professional occupations. The government should also establish special job evaluation or pay arrangements with nationwide and/or local pay, as appropriate, for occupations or groups of occupations that cannot be accommodated effectively under the national pay system for some substantial reason, e.g.,

- Regular-schedule rates are so non-competitive as to handicap recruitment and retention.
- Compensation policies are so different in the non-federal sector that direct comparisons are difficult or impossible.

Even more important is the need to remove the artificial ceilings that have prevented comparability of compensation for executives and other professionals at the upper levels. In spite of the supreme importance of this small group to the well being of the United States, their recruitment and retention have been severely hampered for many years by prevailing compensation ceilings.

Sharing the Economic Burden

It is recommended that deviations from the comparability pay plan be submitted by the President only in case of a national emergency sufficiently severe that the Congress and the President have imposed, wage, price and rent controls on the public generally. With the enactment of the Federal Salary Reform Act of 1962, a process was set in motion to bring Federal salaries into line with those in private enterprise. While it took some time for Federal pay to approach industry pay, this was partially accomplished during the 1960s under the 1962 Act.

The Federal Pay Comparability Act of 1970 then created the current administrative process under which the President was to act each October to adjust the statutory rates to bring them up to comparability. In practice however, the recommendations of the Pay Agent and of the Advisory Committee on Federal Pay have usually been ignored in favor of budgetary savings made from the pay of the Federal employees. Thus, implemented pay levels have been well below those indicated by the pay data survey results. (It should be noted that both administration and non-government guidance have been overridden; the pay Agent is comprised of three administration officials; the Directors of the Office of Management and Budget and of the Office of Personnel Management and the Secretary of Labor, whereas the members of the Advisory Committee are private citizens appointed by the President for their impartiality, knowledge and experience in the compensation field).

Comparable Compensation Facilitates Good Management

Comparable compensation will make the government competitive in the labor market so that it can recruit and retain a share of the effective and productive employees. This will minimize overstaffing. True compensation comparability for professionals will also minimize two chronic problems; grade creep and compensatory over-liberal benefits.

Aided by the practice of comparable compensation successive Administrations and Presidents could hope to realize their proclamations regarding lean and efficient wsork forces. They could also perform budget economy in the manner of private enterprise; through selective program curtailment rather than through counter-productive pay curbs.

LETTER FROM JEROME M. ROSOW

January 31, 1984

Mr. Donald Devine
Director
Office of Personnel Management
1900 E Street, N.W.
Washington, D.C. 20415

Dear Mr. Devine:

The Advisory Committee thanks you for making your staff available to discuss the four proposed changes in the current methodology for computing Federal white-collar pay comparability with the private sector.

In addition to our staff, we asked Mr. Leon Greenberg, formerly chief statistician with the U.S. Department of Labor's Bureau of Labor Statistics, to serve as a consultant in these discussions. Mr. Greenberg prepared a memorandum on the technical aspects of the four proposals and we are pleased to transmit a copy of his report to you. In his capacity as consultant to the Committee, he raises serious questions about the choice and validity of the four approaches taken and also suggests that the need to expand the current survey by including small establishments and additional occupations be discussed with BLS. One of his principle conclusions, stated on page 8, is as follows: "OPM has taken the adjustments resulting from each of its four methodologies and added them together to arrive at a total reduction in the pay comparability gap. This is a highly questionable procedure. It is much more likely that the adjustments are interdependent and therefore not directly additive."

The Committee strongly supports his findings and adds the following comments to his observations. First, the Committee must take issue with OPM's attempt to weight PATC results by small size firms, particularly those with less than 100 employees. This is an obvious overweighting of small establishments with characteristics both in function and complexity totally unlike that of the Federal Government. Apparently we have also learned little from history. Back in 1966, the PATC survey cutoffs for each industry were established based on estimates of the different proportions of white-collar workers and the number of matches to professional and clerical jobs. By 1972, it became evident in at least one major industry that establishments in the 50-99 employee category in finance, insurance and real estate establishments had few job matches and the cutoff was raised to 100 employees.

The legislative intent of the Federal Pay Comparability Act of 1970 was clearly to establish Federal pay based on private sector averages. The law did not intend to have Federal pay based on the highest or the lowest quartile but, rather, the average. The result of OPM's proposals is to base the pay rates on the lowest quartile, which has the effect of comparing the Federal Government to marginal firms that can attract only the least talented.

The Committee is further disturbed by the proposal to base pay on entry level rates. This again appears to be in violation of the spirit and intent of the 1970 Pay Act and its predecessor, the Federal Pay Reform Act of 1962. The BLS PATC survey has been ongoing since 1959-60 and, over the 24 years of its history, has been collecting average wage rates for the occupations surveyed, not entry rates. The Greenberg paper notes that entry level rates are also collected for the first level of job difficulty, typist I, accounting clerk I, engineering technician I, secretary I, attorney I, chemist I, etc., and is duplicative of OPM's attempt to adjust for entry rates.

In addition to the pitfalls in the four proposed revisions, it should also be pointed out that other improvements in the survey have not been considered. Briefly, these include adjusting for the delay between the survey date and the time the increase is implemented, originally a 6-month delay but now 9 months; the omission of the role of bonuses in compensation (The 1959-69 PATC survey included a section on bonus prevalence. This early volume also eliminated the extreme low and high salaries but stated that "this does not take into account differences in the range of duties and responsibilities among the job descriptions for various levels"); calculations of fringe benefits; public sector wages; as well as a list of others that could be mentioned.

The Committee is seriously concerned that OPM's technical revisions, and the questions they raise, could have long reaching adverse effects on the government's efficiency. We urge that the Office of Personnel Management, along with other Pay Agent members, hold hearings with members of the Federal Employees Pay Council and Federal employee representatives, in accordance with the Pay Act. The Committee believes that if this step is omitted it would be a serious mistake. As a result, the entire process will be discussed and debated in the press and by Congress. This would be reminiscent of 1983, when other changes were proposed but ended in controversy and litigation because discussions were not held and concensus not first achieved.

The Committee believes that the changes contemplated could have far reaching consequences. Therefore, a special meeting of the Pay Agent and the Advisory Committee might be helpful to air the issues in a nonadversarial setting. The introduction of unorthodox and untested statistical revisions, aside from the policy issues, will have a major impact on the entire Federal pay system, its personnel policies, and ability to retain and recruit quality employees.

As a statutory advisory committee, we believe it essential that our views be made known to you and to the President directly. Therefore, we request a meeting with the Pay Agent before changes are made unilaterally. During this meeting, plans could be developed for an appropriate next step. These actions should be taken promptly, before it is too late to remedy by joint consultation.

Sincerely,

Jerome M. Rosow
Chairman

January 4, 1984

Federal-Private Industry Pay Comparability

Comments on OPM's "Alternative Methods for Computing White Collar Pay"

by Leon Greenberg

Introduction

Comparability between Federal and private industry pay is currently determined by utilization of the PATC survey of private enterprise workers. OPM has challenged the specific methods used in converting the PATC results to comparability with Federal pay. The current system shows that the average salary of Federal white-collar workers is 21.5 percent behind that of private industry white-collar workers. OPM has developed four alternative methodologies which are added to produce a gap of less than 4 percent.

The four alternative OPM methodologies are (1) Adjusting for the limited scope of the present survey, (2) Using entry rate comparisons, (3) Adjusting for administrative jobs, and (4) Using core salary rates.

There may, indeed, be some deficiencies in the current PATC survey, some of which can be corrected by expanding the sample. It may also be possible to improve on the current methods of calculation by utilizing data not currently derived directly from PATC and Federal employment figures. However, the OPM methodologies appear to be highly selective and possibly biased.

It is recommended (1) that discussions be held with BLS to determine if expansion of the PATC survey would produce significantly better statistical results, and (2) that alternative methodologies be explored, in addition to those used by OPM.

Comments on the OPM methodologies, with some possible alternatives, follow. Also attached are some comments on a "Human Capital" paper discussed by Phil Schneider.

Adjusting for the Limited Scope of the Survey

The PATC survey excludes 40-60 percent of the private nonfarm work force. A great majority of these workers are in establishments which fall below the present establishment size cut-offs for the PATC survey. OPM has tried to correct for this deficiency by utilizing employment data from the County Business Patterns (CBP) to weight the salary data derived from the PATC survey. OPM received special tabulations from BLS enabling them to split the establishments into three groups--employment less than 250, employment 250-999, and employment 1,000 and over. CBP employment in these three size categories was used to weight the average PATC survey rate for each job. This procedure reduces the 1982 gap by about 4.7 percentage points. (Estimates of the impact of the four changes were made in 1982. The 1982 gap was 18.5 percent and, altogether, the four approaches reduced comparability to 2.5 percent.)

This methodology would appear to result in a gross over-adjustment. It seems logical, even without further statistical analysis, that the activities of small firms would not be compatible with those in Federal bureaus and divisions and, therefore, that the jobs would not be compatible. This a priori conclusion seems to be borne out by the fact that the sample of small establishment jobs covered in the PATC survey is very low because it was so difficult for the BLS to find compatible jobs in small firms.

This point seems particularly pertinent when we find that OPM used a proportionate weight of 69 percent (of total employment) to represent all firms with employment of fewer than 250 employees. In fact, a substantial number of these firms, representing 55 percent of total employment, had fewer than 100 employees. And firms with fewer than 50 employees accounted for 42 percent of total employment. The smaller the establishment the less likely it is to have jobs compatible with those in the Federal Government, although additional research should be conducted to determine occupations by establishment size.

OPM implicitly acknowledges some problems with the use of CBP data for weighting purposes when it states, "Since white and blue collar employment could not be separated it was assumed that the relationship of white collar employment to total employment remained constant with company size." While specific data by occupation by size of establishment may not be available, there is a host of other information available which might be used directly or indirectly to test OPM's assumptions or to develop alternative adjustments. For example:

- In contract construction (71 percent) and wholesale (78 percent) and retail trade, 81 percent or more of the employment is in establishments with fewer than 100 employees. In service industries, 54 percent of employment is in such small establishments. In contrast, in manufacturing, only 26 percent of employment is in the under 100 employment category.
- There is information available at BLS on occupational employment by industry in various degrees of detail. Some of it may not be

up to date, but distributions would not be likely to change very rapidly.

- There is current information available on so-called nonproduction worker employment (i.e., administrative and auxiliary personnel) by industry. These would account for a substantial proportion of white-collar employment. They are 1 percent or less of total employment in construction and services, less than 5 percent in many other industries (table 1).

The major point is that one method was used by OPM to compensate for a presumed underestimate of small firms in the PATC survey, that this revised method may result in a substantial overstatement of small firm influence and that other data are available and should be used to further explore the validity of both the present methods of calculation and the OPM method using CBP data.

Table 1.
Administrative, Support Staff as a Percent of Total
Employment, by Major Industry Group

Industry	Employment by major industry	Administrative and auxiliary personnel (nonproduction support staff)	Support staff as percent of total
Agricultural services, forestry, fisheries	302,694	1,413	.5%
Mining	1,107,726	106,597	9.6
Contract construction	4,286,069	16,855	.4
Manufacturing	20,428,330	1,333,607	6.5
Transportation and other public utilities	4,613,030	139,405	3.0
Wholesale trade	5,260,928	272,413	5.2
Retail trade	15,039,998	664,974	4.4
Finance, insurance, and real estate	5,409,780	132,898	2.5
Services	17,814,081	175,378	1.0
TOTAL	74,850,402	2,843,540	3.8

SOURCE: U.S. Department of Commerce, Bureau of the Census, County Business Patterns, 1981, U.S. employment and payrolls, number and employment, size of establishments by detailed industry, CBP - 81-1, July 1983.

Using Entry Rate Comparisons

The current pay comparability method involves the comparison of average private sector pay rates with average General Schedule rates for selected occupations at comparable work levels. The use of averages appears to be the intent of P.L. 91-656, which states that "Federal pay rates be comparable with private enterprise pay rates for the same levels of work." Note that the reference is not to "a level" but to "levels," namely to a plurality.

Nevertheless, OPM states, "Some people believe it might be more appropriate to use entry rates rather than average rates in the comparison process." The "some people" are not identified.

Whether or not entry rates are to be used for comparison purposes is a policy matter, not a statistical one. However, OPM states that entry rate data are not currently available. Rather than wait for such data to be collected, it has proceeded to estimate private sector entry rates based on three assumptions about private sector firms, namely that they--

1. Have a 40-percent range for each job.
2. Practice mid-point control so that the average rates observed for each job are precisely at the center of the rate range.
3. Structure their jobs into 15 work levels that are identical to General Schedule work levels or structure their jobs in some other manner as to be consistent with steps 1 and 2.

Entry level rates were calculated by uniform application of a 16.67-percent reduction of the average private sector rates, based on the previous assumptions. This method reduced comparability by 6-7 percent.

There does not appear to be any statistical justification for the adjustment procedure used by OPM. No evidence is presented for any of the three assumptions made by OPM. It seems highly unlikely that establishments in all size classes and in all types of industries uniformly practice mid-point control, have a 40-percent range for each job, and structure their jobs as formally as OPM has determined.

It also appears that adjusting for entry rates by deducting 16.7 percent for each grade is duplicative. Entry level rates are collected in the PATC survey. The first level of job difficulty, typist I, accounting clerk I, engineering technician I, Secretary I, are all entry level rates.

Adjusting for the Limited Information on Administrative Jobs

The sample for administrative jobs in the current PATC survey is weak. While a wider range of administrative jobs is under study, OPM is recommending that most of the sample data now available be scrapped. They proposed, instead, that the ratios of professional category salaries at Grades GS-7 through 15 be applied to the administrative category PATC survey salary at Grade GS-5 in order to estimate administrative salaries in Grades GS-7 through 15. Use of this approach reduced the 18.5 percent comparability figure by 4.7 percent.

Shown below is the representation of jobs surveyed in the administrative category:

GS Grade	Number of jobs surveyed	Federal workers: In these jobs	Federal workers: Percent of total in category
5	3	1,187	14.2
7	3	2,628	10.6
9	3	4,205	7.4
11	4	6,702	7.9
12	2	5,254	6.1
13	1	532	1.1
14	1	304	1.2
15	-	-	-

It can be seen that Grades GS-13 through 14 have very low coverage and that Grade GS-15 is not represented at all. However, Grades GS-5 through 11 have three or four jobs surveyed and cover 7.9-14.2 percent of total employment in the administrative category. While not as large a representation as might be desirable, use of the data for these grades would be preferable to the arbitrary use of the ratios derived for the professional category.

It is of some interest to make comparisons with the technical category. We find the following from the PATC survey:

	Professional		Technical		Administrative	
GS Grade	Average	Ratio	Average	Ratio	CP*	CT*
5	$22,074	1.000	$17,758	1.000	$17,674	$17,674
7	24,441	1.107	22,328	1.257	19,569	22,216
9	27,646	1.252	26,750	1.506	22,128	26,617
11	32,669	1.480	NA			

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*CP = Grades GS-7 and 9 - computed from professional ratio.
*CT = computed from technical ratio.

It is readily apparent that (1) the average salary of the technical and administrative categories are nearly identical at the GS-5 level, and (2) the ratios of Grades GS-7 and GS-9 to Grade GS-5 are substantially higher in the technical category than in the professional category. Consequently, administrative salaries computed from the technical category ratios would be substantially higher than those computed from the professional category ratios.

Unfortunately, the technical category does not go beyond Grade GS-9. Nevertheless, the wide disparity between the technical and professional ratios indicates that selection of the latter in order to determine administrative category rates is unwarranted.

Using Core Salary Rates

OPM has eliminated the highest 10 percent and lowest 10 percent rates from the BLS survey data on the grounds that very high and very low salaries are not typical of the job market. This reduced comparability by 1.5 percent.

It must be noted that the Bureau of Labor Statistics (BLS) performs an extensive editing job on the PATC survey schedules. They are reviewed in both the regional and headquarters offices for data that appear to be out of line. Such figures are checked and verified, or corrected, by consultation with the originating establishments. Consequently, the data tend to be free of reporting errors.

A statistical justification for eliminating extreme values might be based on the fact that the survey results are from a sample which is subject to sampling error. The latter is measured by the standard error of the mean estimate which says that 95.4 percent of the time the true mean will be between plus or minus two standard errors and 99.7 percent of the time between plus or minus three standard errors (within certain probabilities or confidence limits).

Note that the true mean will be plus or minus the estimated mean. In the case of wage data, there tends to be a floor at the lower end of the scale (i.e., zero or one dollar) but no ceiling on the upper end of the scale. Therefore, it would not be surprising if the true mean were higher than the estimated mean.

The use of a 10-percent cutoff at each end of the salary scale is statistically illogical and aribtrary. An alternative is to use the range of salaries which lie within two or three standard errors (preferably the latter).

Another statistical alternative is to use medians rather than means. An advantage here is that extreme values automatically are eliminated from having an undue influence on the "average"; and this is accomplished without resorting to arbitrary methods for deriving at an adjusted mean. Of course, if the median is used for private salaries as obtained in the PATC survey it should be compared with the median of Federal salaries.

Addition of Adjustments

OPM has taken the adjustments resulting from each of its four methodologies and added them together to arrive at a total reduction in the pay comparability gap. This is a highly questionable procedure. It is much more likely that the adjustments are inter-dependent and therefore not directly additive. To test this would require a major retabulation of the PATC survey data with all four adjustments being made at each step of calculation. I am not recommending that this be done now with the methodologies proposed by OPM, because of their deficiencies.

ESTABLISHMENT OF COMMITTEE

Ms. TANNER. The advisory committee was established by the Federal Pay Comparability Act of 1970 and is responsible for making recommendations to the President regarding the annual increase for Federal white collar employees. And as an appendix I am attaching a brief summary of the authority of the committee.

My discussion today can be divided into three parts. First, let me briefly review the reasons and circumstances leading to the passage of the Federal Pay Comparability Act and the role of the committee. Next let me briefly relate some of the problems facing the Federal compensation system today and the committee's recommendations for the 1983 October pay increase. Last, let me submit our budget for fiscal year 1985.

We have included a very brief history of how the Federal Pay Comparability Act was developed. Today the comparability system is under attack and repeated departures from it have lessened its credibility as a viable system. The 1983 data show that a 21.5-percent pay increase was necessary to bring the Federal workers' wages on a comparable level with the private sector.

An increase of this magnitude appears to discredit the system and the methodology. The advisory committee believes that both the comparability concept and the basic methodology for achieving comparability are sound and an appropriate pay setting mechanism.

Before 1970 wage increases for the approximate 1.4 million white collar workers were irregular and based essentially on political considerations rather than personnel management considerations of a sound nature. This became unacceptable, and by the 1950's study groups were formed to analyze Federal pay setting methods. And as a result the theoretical and technical basis for the comparability principle was developed.

This pay setting mechanism of comparing Federal wages, job by job content with the same responsibility as in the private sector had been in effect for over 100 years in setting blue collar rates.

The next step in the evolving of the comparability concept came with the passage of the Salary Reform Act of 1962, which formalized the comparability principle. Again unfortunately, both the President and the Congress were reluctant to grant the full comparability increases and again a lag of 18 months became apparent. And in order to correct this, additional legislation was necessary to bring Federal wages up to the private sector levels.

Again, in 1970 as a way of avoiding past problems of political considerations and pay gaps, the Federal Pay Comparability Act of 1970 delegated responsibility for setting pay with the President. Under this legislation, specific guidelines and procedures were set forth for determining pay.

Under the legislation, the Office of Personnel Management has primary responsibility for the survey design, and the Bureau of Labor Statistics does the actual survey work.

In establishing the advisory committee the framers of the legislation sought recommendations from an impartial body of experts with expertise in compensation matters. I think it is important to recite the past and remember history because of the trial and errors that were used to develop our current system; the principles underlying the 1970 act are sound and should be adhered to.

FISCAL YEAR 1985 BUDGET PROPOSALS

Let me turn to a number of the current problems or perceived problems and also some of the proposals in the fiscal year 1985 budget. The October 1983 increase was delayed 3 months and Federal employees, white collar workers were granted a 3.5-percent increase.

The delay on an annualized basis made it a 2.6-percent increase and, with other modifications, the increase virtually disappeared. The fiscal year 1985 budget again proposes a 3.5-percent increase for white collar workers, and again this would be delayed 3 months, thus, another 2.6-percent increase.

For the military personnel, a higher increase is recommended, 5.5 percent. And while the committee would not deny a higher increase to the military, it believes that the link between military and white collar pay should be reestablished.

The committee has repeatedly urged the President and Congress to return to the comparability principle, and it does so again, for decisions affecting the upcoming fiscal year 1985 pay increase.

PROPOSED CHANGES IN PAY METHODOLOGY

The Office of Personnel Management has developed a set of four approaches to reduce comparability. In its 1983 report it attempted to use these four approaches, and I quote from a page in the report, "Had we applied these four changes to compute the pay increases for 1983, it would have resulted in our recommending an increase of slightly less than 4 percent."

In order to fully understand these changes, we met with OPM staff and as a result of these meetings, we sent a letter to OPM and other members of the pay agent, accompanied by a report analyzing these four technical approaches. I request that both the letter and the report analyzing these four approaches be made part of this official record.

Senator ABDNOR. They will be made part of the record.

Ms. TANNER. Thank you very much.

PAY VS. THE DEFICIT

Senator ABDNOR. Well, thank you, Ms. Tanner. I know you have some difficult times at the Commission. I think if we are really being honest with ourselves, with deficits such as they are, increasing Federal pay to reach comparability is not going to happen this year. Would you agree with that?

Ms. TANNER. Well, in our report last year we recommended and we realized the deficits facing the country, but the committee felt that

Government has an obligation to meet the comparability principle, and in our last year's report we recommended that the increases be phased in over a period of years, either 3 or 5 years.

So that this would not be lost because as we can see the pay gap continues to mount each year because the increase actually granted is substantially below that year's increase.

For example, the Bureau of Labor Statistics survey of the private sector in 1983 showed that white collar workers received a 7.1-percent pay increase.

Senator ABDNOR. Is that right across the board or do you make some allowances for certain kinds of——

Ms. TANNER. This was the median increase for those occupations surveyed that are comparable in the Federal sector to those in the private sector.

If one wanted to use a different approach—and we in our 1983 report recommended that because of the controversy surrounding the survey that we take some time to establish a more comprehensive survey if that is what is needed. We recommend that such a survey be conducted every 2 or 3 years and, during the intervening years, the BLS employment cost index be used, for example, as a way of establishing pay increases. And, as a matter of fact, in the past 3 years alone Federal workers have received one-half of the increases that the white collar workers have, according to the employment cost index of the BLS.

ADDITIONAL COMMITTEE QUESTIONS

Senator ABDNOR. Ms. Tanner, I would like to go into it more but—I am going to have to bring it to a close. If we have any other questions I hope we can feel free to submit them to you in writing.

And this is going to conclude our hearing today. Again, I thank you for waiting until the last. I guess someone has to. It was your misfortune. I hope we have not rushed you too much.

[The following questions were not asked at the hearing but were submitted to the Department for response subsequent to the hearing:]

ADDITIONAL COMMITTEE QUESTIONS

Question. Your statement indicates that a disparity has been created with regard to military and civilian pay. We always hear how the military continues to fall behind. Could you elaborate on this problem?

Answer. Pay increases for Federal white collar and the military have been linked over the years, each being granted the same increase. This link, however, was broken in recent years. In October 1980, the military received an 11.7 percent pay increase and in October 1981 the increase was 14.3 percent. White-collar civilians received 9.1 percent and 4.8 percent, respectively.

The rationale for these higher increases was the inability of the Armed Forces to attract and retain skilled personnel. Again, in January 1984, however, the military received a higher increase, 4 percent, compared to the white collar increase of 3.5 percent, and at a time when military personnel goals were easily met and exceeded. While the increase for both military and civilians was well below that in the private sector, this link was again broken and the committee believes it should be restored.

During hearings held November 30, 1983, before the Subcommittee on Civil Service, Post Office, and General Services, Senate Committee on Governmental Affairs, and the

Defense Subcommittee, Senate Committee on Appropriations, testimony was presented by the Congressional Budget Office. CBO estimated "that, at pay grades that are commonly compared, military personnel take home more cash pay than do Federal civilians. * * * For example, a typical military person in the Washington, D.C. area serving in pay grade 0-5 (an Army lieutenant colonel or Navy commander) with 20 years of service takes home roughly $29,500 a year. A typical E-7 (an Army sergeant or Navy chief) with 14 years of service takes home approximately $22,000 compared to $16,000 for a GS-9 at step 4. The validity of these comparisons depends of course, on correct linkage between military and civilian pay grades. The ones I have used are roughly consistent with linkages suggested in a study by Hay Associates for the Department of Defense's third quadrennial review of military compensation in 1976. Such studies typically identify common occupational elements such as supervisory responsibilities, job content, and level of skill or education required."

In conclusion, the advisory committee believes that it is not in the best interest of the country or of enlisted personnel to pit military against civilians, but, rather, both should have pay adjusted according to private sector standards and, at this time, Federal pay is lagging substantially behind.

Question. All things considered, increasing Federal pay to reach comparability will probably not be enacted during this session of Congress, or for that matter, in coming years if the political face stays as it is. Has the committee given any consideration to alternatives?

Answer. First, the committee wants to restate for the record its continuing support for the comparability principle and the current methodology for measuring it. This is not to say that improvements should not be made, and over the years we have, in fact, suggested a number of changes, some of them noted in response to question 3.

To specifically respond to this question, however, the advisory committee addressed this issue in its 1982 report. In our report to the President, we recommended that the pay gap, then 18.5 percent, be phased in over a 3- to 5-year period, which would be in addition to the amount of private sector increases for those years. Unfortunately, this recommendation has gone unheeded.

As our testimony points out, each year the gap grows wider and the entire comparability concept loses its credibility. The results of poor personnel practices will show up later when the Government is unable to recruit the most talented and the most capable leave.

Question. Your statement indicates there are problems with the way the Office of Personnel Management reached its conclusions on pay. Could you briefly outline what the OPM did and where the shortcomings, as the committee perceives them, arise?

Answer. As our testimony indicates, the Office of Personnel Management, as part of the Presidents' pay agent (also composed of the Director of the Office of Management and Budget and the Secretary of Labor), states that the current survey conducted by the Bureau of Labor Statistics is unrepresentative of the private sector. The Director of OPM planned to implement four changes in the current methodology in 1983 but was stopped by OMB. Apparently he hopes to incorporate them in the 1984 calculations. These technical changes would (1) adjust for the limited scope of the present survey, (2) use entry rate comparisons, (3) adjust for the limited information on administrative jobs, and (4) use core salary rates. Using these four methods would drop the 21.5 percent comparability gap shown for 1983 to below 4 percent. The advisory committee objects to these on the following grounds:

1. OPM states that approximately 60 percent of the private sector is excluded from the survey. We believe that their approach is an obvious overweighting of small establishments, with characteristics both in function and complexity totally unlike that of the Federal Government. These comparisons base the pay rates on the lowest quartile, which has the effect of comparing the Federal Government to marginal firms that can attract only the least talented. It should be pointed out that the Federal Government is the largest employer in the Nation and employs people in some 800 occupations. In the private sector, by contrast, 55 percent of all employees are in establishments with less than 100 workers. BLS, in fact, does survey firms employing as few as 50 workers in selected services but its survey generally includes establishemtns with 100 to 250 and over. This cutoff is already at the level where jobs common to both the private and

Federal sector can be matched without an undue additional cost burden in finding job matches.

2. The advisory committee believes that the use of entry level rates as OPM describes is both duplicative and counter to the intent of the law. First, the survey already looks at entry level rates, and the first level of job difficulty, by collecting rates for typist I, accounting clerk I, engineering technician I, secretary I, attorney I, accountant I, et cetera. The arbitrary approach of reducing each grade by 16.7 percent is duplicative and statistically unsound. Further, the committee believes that the intent of the Federal Pay Comparability Act of 1970 was to survey pay averages, not entry rates.

3. The committee believes that sufficient data exist for administrative jobs GS grades 5 to 11, and that to discard this information is wrong. OPM uses the differentials in the professional series and applies it to the administrative GS-5 job to arrive at rates for grades 7 to 15. If, in fact, the rates for technical jobs and these ratios had been applied instead, the administrative rates would have been higher. This is merely another indication of arbitrariness to reduce comparability.

4. OPM proposed dropping 20 percent of the data collected and using what it terms core rates. Again, this is an arbitrary cutoff of eliminating 10 percent of the top and 10 percent of the bottom. Rates that appear to be outside the range of the norm are checked by BLS and, if found in error, are not used. A more appropriate statistical approach would be to use medians rather than means, in which case the extreme values are automatically eliminated from having an undue influence on the average and this can be accomplished without resorting to arbitrary methods for deriving at an adjusted mean.

Finally, the advisory committee must point out that OPM has not considered other options for improving the comparability concept. For example, the survey should be expanded to include State and local government workers, but this would require a change in the legislation. We have recommended that occupations, such as clerical positions recruited on a local basis, be paid locally; that the survey be expanded to include more occupations; that fringe benefits should be considered, although separately; that adjustments be made for the time lag between data collection and increase implementation; and that other forms of compensation be considered, bonus, thrift plans. The committee has recommended that a special commission, similar to the Rockefeller pay panel, is needed to review the entire compensation issue and has gone on record in support of bills in the House and Senate to establish a Centennial Commission on the Civil Service. We find the proposed OPM approach totally unacceptable.

SUBCOMMITTEE RECESS

Senator ABDNOR. I think the subcommittee will be meeting tomorrow, March 6 at 10 a.m. in SD-124, the same room as today, and we are going to have the Commissioner of IRS and the Acting Administrator of the General Services Administration. So with that I am going to conclude our hearings today and reconvene at 10 o'clock tomorrow morning.

Thank you.

Ms. TANNER. Thank you, Mr. Chairman.

[Whereupon, at 4:20 p.m., Monday, March 5, the subcommittee was recessed, to reconvene at 10 a.m., Tuesday, March 6.]

TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 1985

TUESDAY, MARCH 6, 1984

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 10:25 a.m., in room SD–124, Dirksen Senate Office Building, Hon. James Abdnor (chairman) presiding.

Present: Senator Abdnor.

DEPARTMENT OF THE TREASURY

INTERNAL REVENUE SERVICE

STATEMENT OF ROSCOE L. EGGER, JR., COMMISSIONER

ACCOMPANIED BY:
- JAMES I. OWENS, DEPUTY COMMISSIONER
- JOEL GERBER, ACTING CHIEF COUNSEL
- PHILIP E. COATES, ASSOCIATE COMMISSIONER (OPERATIONS)
- M. EDDIE HEIRONIMUS, ASSOCIATE COMMISSIONER (DATA PROCESSING)
- NORMAN A. BOLZ, ASSOCIATE COMMISSIONER (POLICY AND MANAGEMENT)
- JOSEPH F. KUMP, FISCAL MANAGEMENT OFFICER
- ARTHUR D. KALLEN, DIRECTOR, OFFICE OF BUDGET AND FINANCE, DEPARTMENT OF THE TREASURY

INTRODUCTION OF ASSOCIATES

Senator ABDNOR. The subcommittee will come to order. This is the second day of hearings on the Treasury, Postal Service, and General Government appropriations bill.

Today we are going to receive testimony from the Commissioner of Internal Revenue Service, Mr. Roscoe Egger, and the Acting Administrator of the General Services Administration, Mr. Kline.

I am not going to have any opening statement, other than to apologize to you for having to wait so long. I got tied up, and I should know better than to keep the IRS waiting. They may come home to haunt me. I told my mayors that if I wanted to protect myself, I had better get down here as quickly as I could.

Mr. EGGER. With that, let me introduce my associates first of all. Here with me is Deputy Commissioner Jim Owens; Joel Gerber, who is Acting Chief Counsel; and Associate Commissioner Phil Coates for Operations; and then Associate Commissioner Ed Heironimus for Data Processing, here at the table with me. And we have with us Associate Commissioner Norm Bolz, Policy and Management; and Fiscal Management Officer Joe Kump.

Also with us today, representing the Treasury Department, is Art Kallen, Director of the Department's Office of Budget and Finance.

BIOGRAPHICAL SKETCHES

Several of these witnesses, Mr. Chairman, are appearing for the first time so, with your permission, I would like to submit their biographical statements for the record.

Senator ABDNOR. That will be fine. Without objection, those will be placed in the record.

[The information follows:]

BIOGRAPHY OF NORMAN A. BOLZ

Norman A. Bolz was appointed Associate Commissioner (Policy and Management) in the IRS headquarters in February 1984. He succeeds Philip E. Coates, who became the Associate Commissioner (Operations).

In his new position, Bolz will be responsible for all administrative and general management functions of the IRS and will oversee the activities of the assistant commissioners for planning, finance and research, for human resources and for support and services.

Bolz retired in 1982 from Coopers and Lybrand, International, where he served on the firm's international and domestic executive committees, and also was vice chairman for international operations. He also had been managing partner of the company's Detroit and Washington, D.C. offices, including regional responsibilities in the Midwest. He served on Coopers and Lybrand's Securities and Exchange Commission Review Board and the Accounting and Auditing Practice Committee.

Since 1982, Bolz has been a private consultant for a number of major corporations.

A native of Detroit, Bolz is an honors graduate of Wayne State University with a B.S. degree in accounting. He is a member of the American Institute of Certified Public Accountants and has served in executive positions for a number of business and cultural organizations, most recently in Washington, D.C.

Bolz is married and the father of three adult children.

BIOGRAPHY OF PHILIP E. COATES

Philip E. Coates was appointed Associate Commissioner (Operations) in the IRS headquarters in October 1983. In this position, Mr. Coates is one of three principal advisors to the Commissioner on policy matters pertaining to overall tax administration, with specific responsibilities for the management and executive direction of all policies, programs and activities involving the collection of delinquent accounts; securing delinquent returns; investigation of criminal fraud involving internal revenue laws; examination of tax returns; and the approval and subsequent examination of employee plans and exempt organizations.

A career Government official, Mr. Coates began his IRS employment in 1952 in Welch, W. Va. He served in progressively responsible management positions in the examination function. Following a 2-year assignment as a tax administration advisor to the government of El Salvador, Mr. Coates was chosen in 1969 for the IRS executive selection and development program, which offers specialized training to employees with executive potential. He has held the following positions since completion of that program: assistant district director—Phoenix; assistant district director—Brooklyn; district director—Milwaukee; district director—Manhattan; regional commissioner—North Atlantic region (New York); assistant commissioner (compliance)—Washington, D.C.; regional commissioner—Central region (Cincinnati); and associate commissioner (policy and management)—Washington, D.C.

A native of West Virginia, Coates holds a B.S. degree from Concord College, Athens, W. Va., and is a certified public accountant. He also attended the University of Michigan Graduate School (business administration) and the University of Virginia Graduate School (public administration).

Coates resides in Alexandria, Va.

PREPARED STATEMENT

Mr. EGGER. I do have a more complete statement which we would like to submit for the record.

Senator ABDNOR. That, too, will be made a part of the record.

[The statement follows:]

STATEMENT OF ROSCOE L. EGGER, JR.

Mr. Chairman and members of the Committee, I am pleased to be here today to present the proposed budget for fiscal year 1985 for the Internal Revenue Service. First, I would like to introduce my associates: Deputy Commissioner, Jim Owens; Joel Gerber, Acting Chief Counsel; Associate Commissioner Phil Coates for Operations; Associate Commissioner Ed Heironimus for Data Processing; Associate Commissioner Norm Bolz for Policy and Management; and our Fiscal Management Officer Joe Kump. Also with us today representing the Treasury Department are Dave Pickford, Acting Assistant Secretary for Administration and Art Kallen, Director of the Department's Office of Budget and Finance. Several of our witnesses are appearing for the first time. With your permission, I will submit their biographical statements for the record.

General Direction

Mr. Chairman, since becoming Commissioner, I have emphasized a long-term approach to effective tax administration which has three major objectives: tax compliance, productivity through improved technology, and the fair and equitable treatment of taxpayers. These major thrusts will continue to guide the Service in FY 1985. In working toward achieving this direction, the Service will rely heavily on ADP investments by taking advantage of state-of-the-art technology to reduce labor-intensive activities and reapplying productivity savings to meet growing workloads.

Summary of the IRS Budget

Our proposed budget for fiscal year 1985 provides for average employment of 88,379 and some $3.5 billion to administer the nation's tax laws. This is a decrease of 903 average positions and an increase of $206.2 million from the level authorized in fiscal year 1984.

Our FY 1985 budget has four major goals:

(1) To continue efforts begun over the last two years to modernize ADP systems;

(2) To help contain the tax gap of more than $80 billion;

(3) To implement the Interest and Dividend Tax Compliance Act of 1983; and

(4) To maintain essential levels of tax administration.

At the same time, we will continue efforts to reduce costs wherever possible. Our budget reflects, for example, anticipated productivity and management savings of some 4,500 average positions. We are redirecting these savings to finance new work without increasing staff.

ADP and Systems Modernization

Our first goal, ADP and systems modernization, continues efforts begun the last two years to modernize the Service's ADP systems and improve the efficiency and effectiveness of operations by automating office procedures. Over 180 additional average positions and $64 million are being requested for this purpose. More than half this request, $45 million, continues projects previously approved by this Committee. New efforts total $19 million and include such items as an integrated communications network which will modernize voice, data, and video communications and reduce operating costs.

Previous investments in ADP modernization are beginning to yield significant benefits in greater productivity. For example, since the beginning of this administration, we have reduced the staffing to process tax returns and issue refunds by 28 percent. At the same time, we are processing 12 percent more tax returns. Additionally, with the implementation of the Automated Collection System, dollars collected are increasing and staffing is decreasing.

Contain the Tax Gap

A second initiative in our budget is to help contain the tax gap of $80 billion through focused compliance efforts in areas of underreporting and tax avoidance. In fiscal year 1985, the proposed budget provides 1,447 average positions and $52 million to focus on compliance efforts which include: more in-depth examination of nonfarm businesses; matching and follow up on additional information returns required by the Tax Equity and Fiscal Responsibility Act; reducing the growth of Appeal and Tax Litigation inventories; increasing collection of unpaid tax accounts; and increasing tax research of noncompliance.

Interest and Dividend Tax Compliance Act

A third major goal of this budget is to implement the Interest and Dividend Tax Compliance Act of 1983. The budget provides 435 average positions and $12 million to expand the document matching program for interest and dividend income beginning with tax year 1983 and, in cases of noncompliance and underreporting of income, selectively withholding 20 percent on interest and dividends.

Maintenance of Tax Administration

The fourth objective, to maintain essential levels of tax administration, provides basic funding to maintain the revenue initiative begun in 1983, ensure compliance with the Tax Equity and Fiscal Responsibility Act of 1982 and process 6.4 million additional tax returns and documents.

Taxpayer Service

In fiscal year 1984, taxpayers are now receiving the same level of tax assistance as last year. Our goal is to continue taxpayer service at this level and in the most cost effective manner possible. The budget for FY 1985 will provide the programs and means to inform, educate, and assist taxpayers.

SALARIES AND EXPENSES

Executive Direction

The Executive Direction function includes my office, the Chief Counsel's office, the three Associate Commissioners, and the Assistant Commissioner (Inspection). Included in my office are the Equal Employment

Officer, the Taxpayer Ombudsman, the Assistants to the Commissioner for Public Affairs and Legislative Liaison, and their immediate staffs.

The budget for Executive Direction totals 131 average positions and $8.4 million, the same staffing level as authorized in FY 1984, with a $.3 million increase to cover mandatory cost increases.

Management Services

The Management Services activity develops and provides Servicewide policy for managing the human, logistical and financial resources needed to fulfill the Service's tax administration mission in a cost effective manner. Specifically, Management Services is divided into the three following areas, each responsible for specialized support programs: Human Resources; Planning, Finance and Research; and Support and Services.

The FY 1985 Management Services request totals 2,112 average positions and $96.3 million. This request is 28 average positions less and $2.9 million more than FY 1984. The reduction of 28 average positions reflect a program reduction of 18 average positions; net management savings of 12 average positions; and an increase of 2 average positions to conduct tax research.

At the resource level requested for FY 1985, emphasis will be placed on achieving greater productivity in the Service's labor inten sive, office-based operations through advanced automation technology. A major initiative is the Service's Payroll Modernization initiative which will produce cost effective, accurate input of payroll/personnel data directly to the Data Center Employee Master File.

For FY 1985, we are requesting that not to exceed $1 million remain available until expended in the Salaries and Expenses Appropriation for research. These no-year funds are important to allow completion of research projects which analyze the specific nature of particular tax gap components, address areas that represent new or potential areas of noncompliance, and identify factors affecting compliance.

PROCESSING TAX RETURNS

Returns Processing and Revenue Accounting

This activity provides for processing tax returns, issuing refunds and notices of tax due, accounting for revenues, and processing information returns for document matching.

The resources requested for Returns Processing and Revenue Accounting total 21,651 average positions and $769.5 million, a decrease of 1,122 average positions and an increase of $14.7 million from FY 1984. With the resources requested, we will receive and process almost 173 million tax returns and issue almost 76 million refunds to individual taxpayers.

The resources requested include 1) 490 average positions and $8.8 million to contain the tax gap through issuing statutory notices on underreporting of income, assessing penalties, and monitoring and recapturing revenue on state income tax refunds; 2) 350 average positions and $7.7 million to implement the Interest and Dividend Tax Compliance Act of 1983; 3) 58 average positions and $3.9 million for ADP and systems modernization; and 4) 792 average positions and $35.6 million to process over 5.6 million additional tax returns and related schedules, and some 762,000 additional supplemental documents, and to issue notices, tax bills and refunds promptly. This increase in staffing is being offset by saving almost 2,500 average positions and $42 million by:

- replacing outmoded manual research and microfilm operations with a modern automated system,
- automation of service center accounting operations and the non-master file accounting system,
- partially replacing the existing labor-intensive remittance processing system, and
- increasing productivity in service center operations.

An integral part of our returns processing system is to math verify the tax returns filed. This yielded a net $2.5 billion in FY 1983.

Computer Services

The Computer Services activity provides comprehensive developmental data processing support for the Service, including the development, acquisition, installation, and evaluation of computer systems for tax administration. The request totals 1,536 average positions and $233.0 million, an increase of 12 average positions and $45.6 million over FY 1984.

The resources requested will be primarily devoted to maintaining existing ADP systems and continuing initiatives. Only two new initiatives, error resolution and a management information system for the Information Returns Program, are being introduced in FY 1985.

The proposed increase includes 6 average positions and $44.2 million to improve automated support for tax processing, collection and enforcement operations. Projects include the redesign of the tax processing system; application of OCR technology to remittance processing, Forms 1099, and hand-held scanners to read/input short documents; the automation of the examination process; the replacement of the direct data entry system with a distributed input system; and the enhancement of the integrated retrieval system.

The requested increase also includes 40 average positions and $1.9 million to implement the Interest and Dividend Tax Compliance Act of 1983; and 22 average positions and $0.9 million to develop and test systems for tax compliance.

For FY 1985, we are requesting that not to exceed $50.0 million remain available until expended for systems modernization initiatives in the Processing Tax Returns Appropriation. The purpose of this authority is to allow for the lengthy procurement process, site preparation and other unanticipated delays in acquisition of services, equipment and supplies to support approved ADP and systems modernization initiatives.

EXAMINATION AND APPEALS

Examination

I would like now to comment briefly on our Examination program. Examination of returns is one of the primary means through which full compliance is encouraged, errors corrected and public confidence in fair tax administration maintained.

Requested resources for the Examination program in FY 1985 total 29,273 average positions and $1,106.9 million, a net increase of 736 average positions and $83.3 million above the level for FY 1984.

At the requested program level, we plan to audit about 1.5 million returns in district offices and service centers and to make 1.2 million service center contacts and W-4 program contacts in FY 1985, including follow-up on underreporting of income disclosed by matching information returns filings with taxpayers' returns.

We estimate that the additional tax, penalties and interest assessed from these efforts will be $14.0 billion, $0.5 billion over that estimated for FY 1984.

This request includes 514 average positions and $25.6 million for measures to help contain the tax gap. Foremost among these is the Schedule C (individual nonfarm business) initiative which will be used to conduct more extensive examinations among those business classes which have low levels of voluntary compliance with the tax laws. Also included are resources to analyze the specific nature of particular tax gap components, address new and potential areas of non-compliance, and identify factors affecting compliance.

Appeals and Tax Litigation

This activity involves handling those cases in which taxpayers disagree with examination results. The Appeals function provides an independent administrative review with the objective of reaching impartial settlement. The Tax Litigation function represents the Service in judicial proceedings that cannot be resolved through administrative appeals.

A total of 3,675 average positions and $157.1 million is requested in FY 1985 for Appeals and Tax Litigation, an increase of 104 average positions and $10.2 million over the FY 1984 level.

The FY 1985 program plan provides for slowing the growth for Appeals and Tax Litigation inventories. With the resources requested for Appeals, 1,596 additional taxpayer disputes are expected to be disposed, generating $46 million in tax and penalty collections.

In Tax Litigation, the requested increase of 93 average positions is expected to permit closure of 2,809 more cases, thereby supporting Service initiatives to contain the tax gap including litigation against abusive tax shelters.

Employee Plans and Exempt Organizations

The Employee Plans function ensures voluntary compliance with those provisions of the Internal Revenue Code applicable to employee pension plans. Likewise, the Exempt Organizations function monitors organizations exempt from federal income tax to ensure their compliance with statutory requirements.

A total of 2,406 average positions and $93.1 million is requested in FY 1985 for Employee Plans and Exempt Organizations, an increase of 121 average positions and $5.2 million over FY 1984.

During FY 1985, field resources will primarily be devoted to handling the substantial volume of determination letter applications that are expected to result from the passage of the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA). It is estimated that the Service will review approximately 336,700 employee plan amendments, plan terminations, and new plan applications during the fiscal year.

INVESTIGATION, COLLECTION AND TAXPAYER SERVICE

Tax Fraud Investigations

The Tax Fraud Investigations activity is responsible for investigating criminal violations of the Internal Revenue laws. The resources for this activity in FY 1985 total 4,532 average positions and $212.0 million, an increase of 11 average positions and $9.2 million over the FY 1984 level.

For FY 1985, a greater emphasis is being placed on the growing amount of activity involving illegal tax protesters, fraudulent tax shelters, questionable refund schemes, offshore banking, and tax havens. The Service will continue to commit a substantial level of resources to the special enforcement areas of organized crime and narcotics trafficking.

Ten additional average positions and $.6 million have been added to analyze the specific nature of particular tax gap components, address areas of noncompliance, and identify factors affecting compliance.

Collection

The Collection activity has the responsibility to collect unpaid accounts; secure delinquent returns; determine and analyze why accounts become delinquent; develop and implement programs to prevent accounts from becoming delinquent and prevent nonfiling; determine and analyze the reasons for nonfiling; and measure the types and degrees of nonfiling.

The proposed budget for Collection totals 17,202 average positions and $621.2 million in FY 1985, a decrease of 678 average positions and an increase of $24.5 million over the FY 1984 level.

Included in this request are 138 average positions and $5.0 million to reduce the tax gap, 30 average positions and $1.6 million to ensure compliance with the Interest and Dividend Tax Compliance Act of 1983 (P.L. 98-67), 114 average positions and $3.2 million to identify taxpayers who have not met the filing requirements specified by the Tax Equity and Fiscal Responsibility Act of 1982 (P.L.97-248), and 39 average positions and $2.5 million to analyze the specific nature of particular tax gap components. These increases will result in the collection of an additional $61 million in unpaid taxes in FY 1985 and further assessments of $111 million in tax liability.

The resources requested for FY 1985 maintain the revenue initiative approved in FY 1983 to reduce the growing number of delinquent tax accounts and to counter the growth in non-compliance with returns filing requirements. In addition, $3.9 million in overtime is being requested to enable personnel to collect $77 million in additional unpaid taxes.

To offset these increases, we estimate saving 842 average positions in FY 1985 through nationwide implementation of the Automated Collection System.

Taxpayer Service

The Taxpayer Service activity promotes voluntary compliance with Federal tax laws on the part of all taxpayers by informing them of their responsibilities and by providing service which will assist them in meeting their obligations. This activity also provides information about Service notices and procedures and resolves inquiries concerning taxpayers' accounts.

Resources requested for FY 1985 total 4,312 average positions and $169.3 million, a decrease of 58 average positions, which will result from increased productivity, and an increase of $8.8 million. The FY 1985 program provides a balanced and cost effective system for providing essential tax information to the public.

In addition to taxpayers assisted through traditional walk-in, correspondence and toll-free telephone assistance programs, the Outreach program and the Tele-Tax program have been maintained at approximately the same levels as FY 1984.

The FY 1985 program includes 15 average positions and $0.8 million to respond to questions related to the Interest and Dividend Tax Compliance Act of 1983 (P.L. 98-67).

Summary

In conclusion, I would like to stress that this budget request is a continuation of our efforts to make tax administration more efficient and cost effective through automation, strengthened tax enforcement, and service to taxpayers.

Within requested amounts, we have identified significant productivity and management savings which are being reapplied to increase efforts aimed at containing the tax gap; to implement legislative mandates, primarily the Interest and Dividend Tax Compliance Act of 1983; to continue efforts at modernizing operations through ADP and related technologies; and to process additional work resulting from growth in the taxpaying population.

The Service has requested limited transfer authority (2%) among appropriatons. This limited transfer authority is important for improving the Internal Revenue Service's ability to ensure balance and effectiveness in the administration of the tax system. It will enable the Service to react quickly and effectively to shifts in workload and backlogs which cross appropriation lines. This limited authority is particularly necessary to avoid disruption to programs as the Service adjusts to the new appropriation structure approved by the Congress for the fiscal year beginning with 1984.

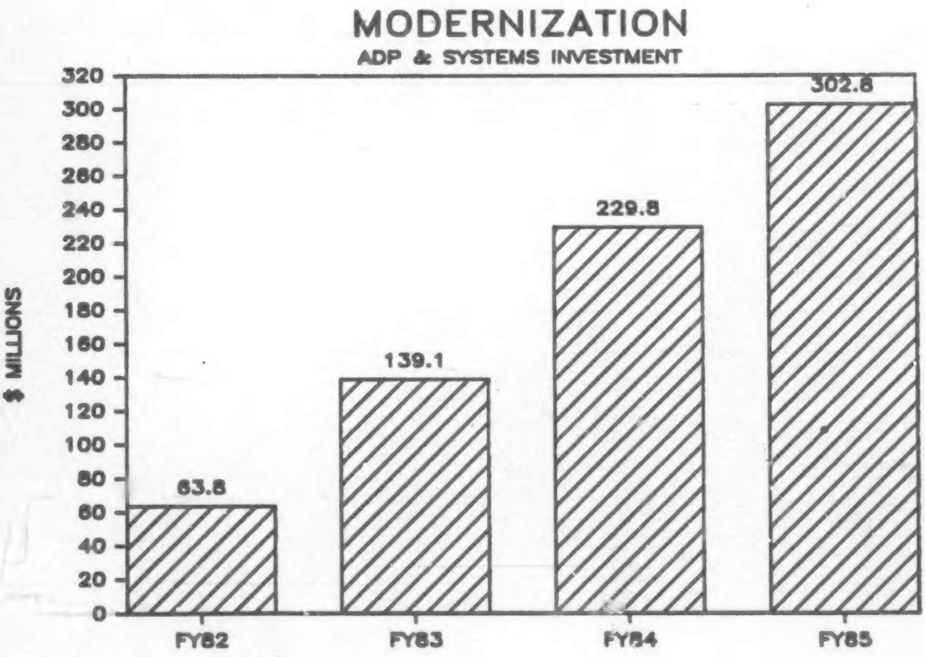
In addition, the Service is requesting transfer authority (the greater of 15% or $15.0 million) for document matching. The matching of information returns is divided into five major phases: 1) input processing; 2) perfection of documents with erroneous or missing social security numbers; 3) correlation or matching of perfected documents with internal IRS data; 4) follow-up of apparent underreporter cases output; and, 5) follow-up of apparent nonfiler cases output. For information documents related to a given tax year, it takes from three to four years to complete the document matching cycle.

Structurally, resources for the different phases of document matching are financed within three operating appropriations without specific transfer authority from one appropriation to another. Currently, only limited workload changes can be accommodated provided that they are entirely within the same appropriation. However, the flexibility to move resources between component activities for document matching is essential, even if the activities involved are in different appropriations. The transfer authority requested for document matching will provide for greater efficiency in allocating resources and for improved effectiveness in detecting underreporting of income and nonfiling of tax returns.

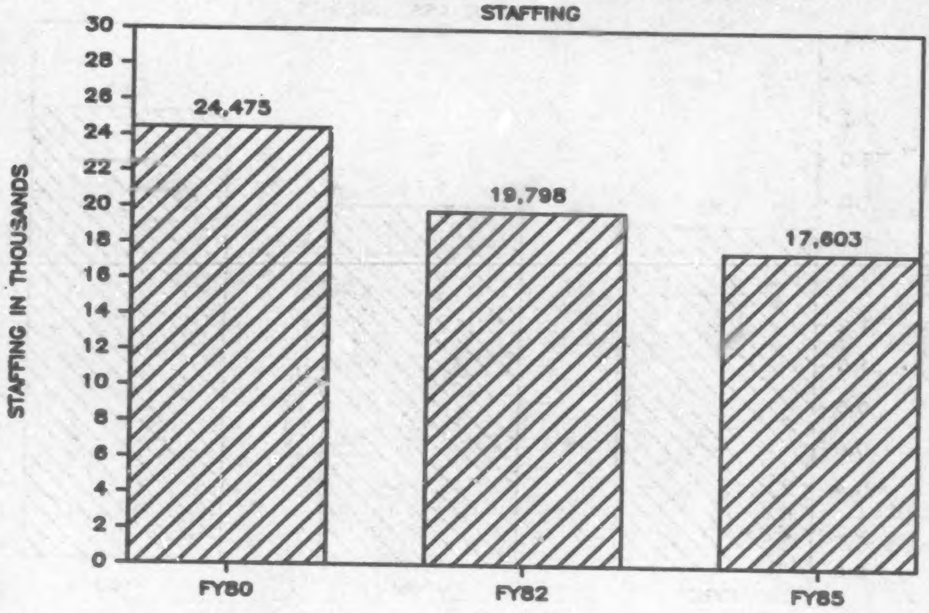
Mr. Chairman, my colleagues and I will be pleased to try and answer any questions you or the members of the subcommittee may have.

FY 1985 BUDGET SUMMARY

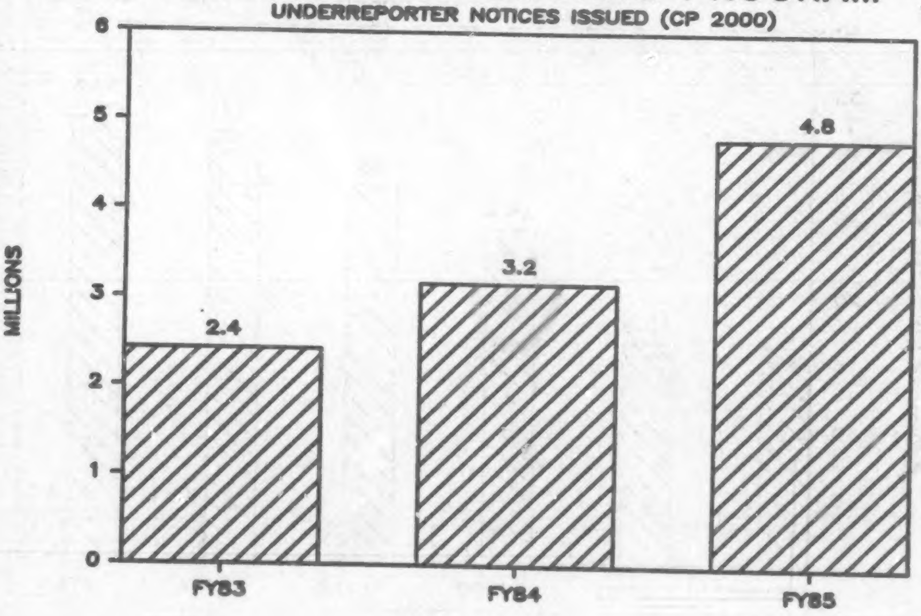
	AVERAGE POSITIONS	$ (MILLIONS)
FY 1984 BUDGET	89,282	$ 3,326
CONTAIN TAX GAP	+ 1,447	+ 52
BACK-UP WITHHOLDING	+ 435	+ 12
ADP AND SYSTEMS MODERNIZATION	+ 182	+ 64
WORKLOAD-RELATED INCREASES	+ 1,493	+ 63
MANDATORY COST INCREASES	+ 101	+ 175
REDUCTIONS AND SAVINGS	− 4,561	− 160
TOTAL FY 1985 BUDGET	88,379	3,532
DIFFERENCES	− 903	+ 206

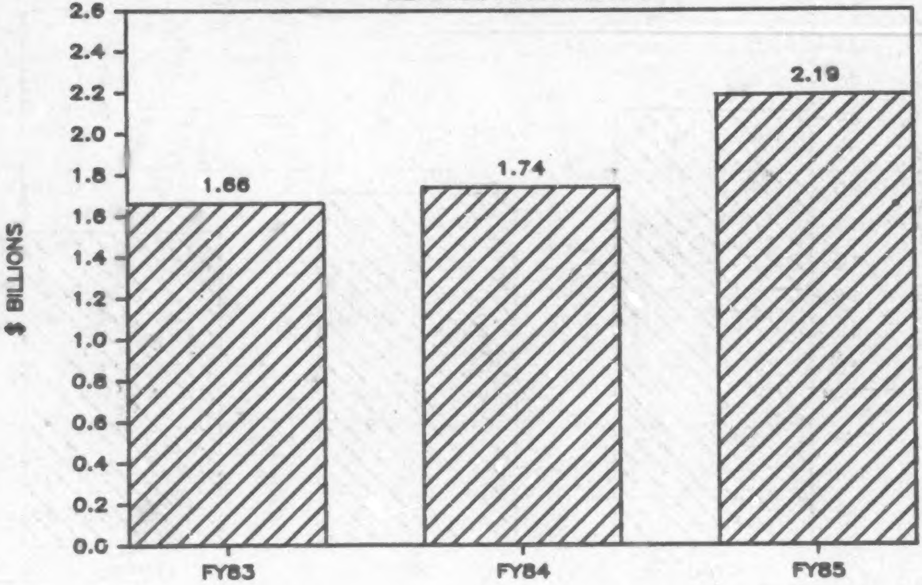


TAX RETURNS PROCESSING



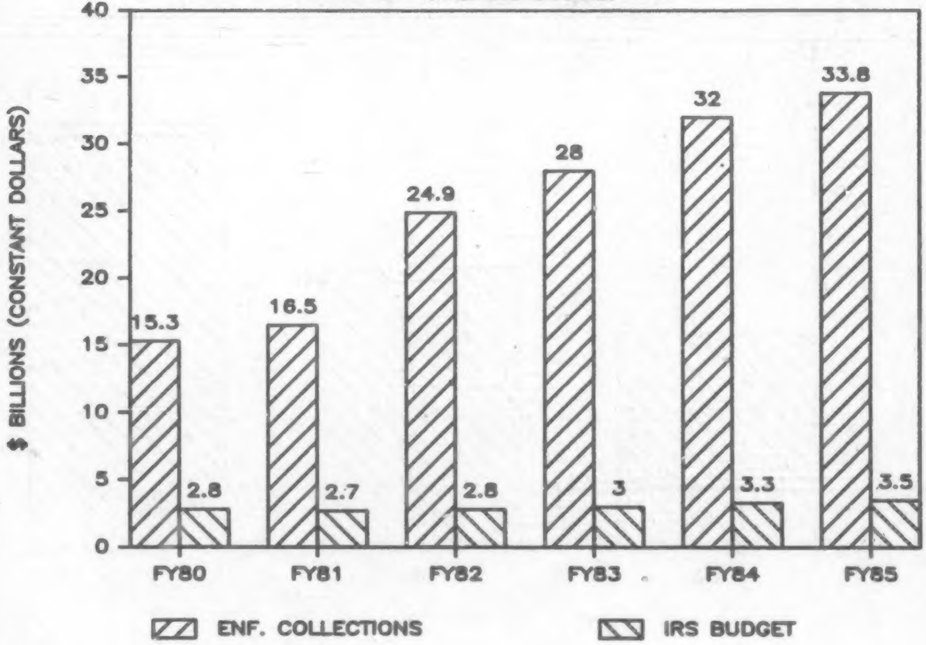
INFORMATION RETURNS PROGRAM





INFORMATION RETURNS PROGRAM

REVENUE ASSESSMENTS



REVENUE FROM ENFORCEMENT

AND IRS BUDGET

GENERAL DIRECTION

Mr. EGGER. Since I became the Commissioner of Internal Revenue, I have emphasized a long-term approach to effective tax administration. This approach has three major objectives: First, tax compliance, and then, productivity through improved technology and, finally, the fair and equitable treatment of taxpayers, not necessarily in that order.

These major thrusts will continue to guide the Service in fiscal year 1985. In working toward achieving this direction, the Service will rely heavily on ADP investments by taking advantage of state-of-the-art technology to reduce labor-intensive activities and by reapplying productivity savings to meet growing workload.

SUMMARY OF THE IRS BUDGET

Our proposed budget for fiscal year 1985 provides for an average employment of 88,379 positions and some $3.5 billion to administer the Nation's tax laws. This is a decrease of 903 average positions, and an increase of $206.2 million from the level authorized in fiscal year 1984. Our fiscal year 1985 budget has four major goals: (1) to continue efforts begun over the last 2 years to modernize ADP systems; (2) to help contain the tax gap of more than $80 billion; (3) to implement the Interest and Dividend Tax Compliance Act of 1983; and (4) to maintain essential levels of tax administration.

At the same time, we will continue efforts to reduce costs wherever and whenever possible. Our budget reflects, for example, anticipated productivity and management savings of some 4,500 average positions. We are redirecting these savings to finance new work without increasing staffing.

ADP AND SYSTEMS MODERNIZATION

Our first goal, ADP and systems modernization, continues efforts begun the last 2 years to modernize the Service's ADP system and improve the efficiency and effectiveness of operations by automating office procedures. Over 180 additional average positions and $64 million are being requested for this purpose. More than half this request, some $45 million, continues projects previously approved by this committee. New efforts totaling $19 million include items such as integrated communications network which will modernize voice, data and video communications, and reduce operating costs.

Senator ABDNOR. That is fine.

Mr. EGGER. Previous investments in ADP modernization are beginning to yield significant benefits and greater productivity. For example, since the beginning of this administration, we have reduced the staffing to process tax returns and issue refunds by 28 percent. At the same time, we are processing 12 percent more tax returns. Additionally, with the implementation of the automated collection system, dollars collected are increasing and staffing is decreasing.

CONTAIN THE TAX GAP

A second initiative in our budget is to help contain the tax gap of $80 billion through focused compliance efforts in areas of underreporting and tax avoidance. In fiscal year 1985, the proposed budget provides 1,447 average positions and $52 million to focus on compliance efforts which include: More in-depth examination of nonfarm businesses; matching and followup on additional information returns required by the Tax Equity and Fiscal Responsibility Act; reducing the growth of appeals and tax litigation inventories; increasing collection of unpaid tax accounts; and increasing tax research of noncompliance.

INTEREST AND DIVIDEND TAX COMPLIANCE ACT

A third major goal of this budget is to implement the Interest and Dividend Tax Compliance Act of 1983. The budget provides 435 average positions and $12 million to expand the document matching program for interest and dividend income beginning with tax year 1983, and in cases of noncompliance and underreporting of income, selectively withholding 20 percent on interest and dividends.

MAINTENANCE OF TAX ADMINISTRATION

The fourth objective, to maintain essential levels of tax administration, provides basic funding to maintain the revenue initiative begun in 1983, insure compliance with the Tax Equity and Fiscal Responsibility Act of 1982, and process 6.4 million additional tax returns and supplemental documents.

I would like to say a few words about taxpayer service. In fiscal year 1984, taxpayers are now receiving the same level of tax assistance as last year. Our goal is to continue taxpayer service at this level and in the most cost-effective manner possible in fiscal year 1985. The budget for fiscal year 1985 will provide the programs and the means to inform, educate, and assist taxpayers.

Details of our program plans and related resource needs by appropriation and by budget activity are provided in the full statement to be submitted for the record.

Now, Mr. Chairman, in closing I would like to present a few charts. After that, my colleagues and I will be pleased to try to answer any questions that you or members of the subcommittee may have.

Senator ABDNOR. Do any of you gentlemen have a statement you want to make?

Mr. EGGER. I think not. They will be available to answer questions on any subject that you would like.

Senator ABDNOR. Very good.

FISCAL YEAR 1985 BUDGET SUMMARY

Mr. EGGER. I think you will find these charts as helpful as I did. With the fiscal year 1985 budget, as you can see, we are reducing the overall staffing by 903 positions, and redirecting substantial savings from productivity and from prior ADP investments to increase enforcement efforts.

I direct your attention to the fact that the bulk of the redirection goes into continuing efforts to reduce the tax gap, and to pick up the workload-related increases. Compared with the fiscal year 1984 budget, this budget provides a decrease, as I have said, of 903 positions, which is 1 percent; and an increase of $206 million, which is 6 percent.

Now, let me highlight some key elements.

Senator ABDNOR. Is that because of ADP that you are able to reduce by 4,561?

Mr. EGGER. The dollar increase?

Senator ABDNOR. I meant the 160 positions.

Mr. EGGER. The bulk of the labor savings is coming from productivity in returns processing, almost all related to the benefits of technology.

Senator ABDNOR. You are sure they are all reductions, are you not? You say reduction and savings in average positions.

Mr. EGGER. Right.

Senator ABDNOR. And you have to transfer some of those, I suppose, to these other positions. Is that right?

Mr. EGGER. Right.

Senator ABDNOR. So when it comes up, we have a net reduction of 903?

Mr. EGGER. A net reduction of 903 positions.

Senator ABDNOR. And you are able to save those 4,560 because of what you have been doing in ADP, mostly?

Mr. EGGER. That is correct, yes, sir.

Senator ABDNOR. That is the general idea.

ADP AND SYSTEMS MODERNIZATION

Mr. EGGER. Let me highlight just some of the key elements of the budget, Mr. Chairman. First, let's talk about modernization and the ADP systems investment, because here is where, as I have already said, the bulk of these productivity savings comes from.

This budget continues the emphasis on modernizing our tax processing system. Total ADP investment has gone from 2.4 percent of the total budget in fiscal year 1982 to 8.6 percent of the total proposed budget for fiscal year 1985. So, as you can see, Mr. Chairman, in those 4 years we have significantly increased the investment in modernization and new systems development.

The automated collection system will be operational in eight sites this week. By June of this year, this system will be operational in all 20 sites. This is just one example of the progress that we have made toward increased effectiveness and efficiency through the use of automation.

TAX RETURNS PROCESSING STAFFING

The next chart, Mr. Chairman, shows the tax returns processing staffing. Now, as this chart indicates, we are realizing significant benefits through automation efficiency in return processing. In this administration, we have reduced the staffing to process returns and to issue refunds by a total of 6,872 positions. That is a 28-percent reduction. And, at the same time, we expect to process, for fiscal year 1985, 18.9 million more tax returns. That is an increase in workload of 12 percent, with a reduction of 28 percent in staffing.

INFORMATION RETURNS PROGRAM

Let me, in the next chart, indicate the effects of our information returns program. The chart shows the underreporter notices that are sent out, where we do the match-up of the information returns. We are naturally expanding the use of document matching. We are now processing all the usable documents that we can, and by fiscal year 1985, Mr. Chairman, we will be in a position to process essentially 100 percent of these information documents. This will be an increase in the IRS presence in dealing with the tax gap, as well as a significant increase in our direct enforcement efforts and the concomitant revenues.

Included in this effort are increased resources, for the backup withholding legislation of 1983. We fully expect that, as a direct result of that legislation and our efforts to support it, the quality as well as the quantity of information documents will improve and increase respectively to a considerable extent.

I might tell you that according to preliminary information as a direct result of the effort by the financial community under the backup withholding legislation, every indication that the information—that is, the taxpayer identification number—in the 1099 type documents will show a 7- to 10-percent improvement in quality. That is to say, those that were either missing or incorrect will be corrected to the extent of 7 to 10 percent which, if you think in terms of that against the 900 million of those returns that we will be receiving in 1985, that is a significant improvement.

The next chart shows the revenue assessed as a result of our information returns program. The increased use of information and document matching is of growing importance in the totality of our enforcement effort.

As an example of how this workload has increased, we received 626 million information returns in fiscal year 1983, and by fiscal year 1985 we are projecting 926 million. That is a 48-percent increase in information documents. We plan, as I said, to process essentially all of those in fiscal year 1985.

We believe that by processing this increase in documents, the revenue assessments will increase by about 25 percent in the one year from fiscal year 1984 to fiscal year 1985, going from $1.74 billion to $2.19 billion.

REVENUE FROM DIRECT ENFORCEMENT

The final chart that I would like to show you, Mr. Chairman, is a dramatic chart, I believe, showing the revenues that have come from direct enforcement in contrast with the total operating cost of the Internal Revenue Service, that is, the cost of administering the tax laws in this country.

Now, as you can see, the blue bars on the chart reflect the operating budget, and these dollar amounts are stated in constant fiscal year 1983 dollars, so that there is no inflation in these figures. So, as you can see, we started in fiscal year 1980 with a budget of $2.8 billion, and our direct enforcement revenue was $15.3 billion.

Fiscal year 1985 shows a budget request of $3.5 billion and revenues collected from direct enforcement of $33.8 billion. That is more than double the revenues with a very modest increase in the budget cost, so that I am satisfied, Mr. Chairman, that the efforts we have made in improving our productivity through enforcement, of redirecting our resources to make them more effective, as innovative programs that we have developed——

Senator ABDNOR. What are the key things that made that possible? I suppose it was a number of things.

Mr. EGGER. The key thing here is the improvement in the efficiency of the information returns program and the redirecting of our audit resources which made the productivity in the exam program improve dramatically.

Mr. Chairman, that is what I wanted to show you in the charts, and that concludes my prepared comments. We will be happy to make every effort to respond to your questions and any of those that other members of the subcommittee may have.

INTEREST AND DIVIDEND TAX COMPLIANCE ACT

Senator ABDNOR. I was going to ask you when you were talking about Interest and Dividends Tax Compliance Act, how that is? Is that proving worthwhile? You know all the problems we had with it.

Mr. EGGER. I think, Mr. Chairman, that two things have happened. No. 1, all of a sudden the entire financial community is now conscious of the need to improve the quality of the reporting, and, of course, with the risks in it for them for failure to report. With the rather significant penalty provisions, we believe both the quality and the quantity of the reporting will improve. That, coupled with the fact that one of our major projects has been the development of optical scanning as a technique for getting into the system the paper information reports that, heretofore, we simply have not been able to process. We didn't have the resources to deal with all of them, and we had a fairly high percentage that were incomplete in the sense that they didn't have accurate taxpayer identification numbers, or were otherwise incomplete

Now, these are improving in quality due to the backup withholding statute. And we are introducing into all our service centers highly-sophisticated optical scanning equipment so that by next year we will have the capability to read into our system essentially 100 percent of the information returns that we get, as compared to just over 80 percent under our prior situation. That is going to make a world of difference in the information returns program.

Senator ABDNOR. What was the manpower we gave you in that particular area for that purpose?

Mr. EGGER. In the information returns program?

Senator ABDNOR. Yes.

Mr. EGGER. We are redirecting only about 435 new positions going into that area to implement backup withholding. It is a fairly modest increase because we are able to do so much more by using scanning techniques to read the documents into the system instead of having to do all the data transcription manually.

Senator ABDNOR. The return is well worth the investment, right?

Mr. EGGER. Oh, absolutely.

TIP INCOME REPORTING

Senator ABDNOR. What about tips? I get hit with that once in awhile back in South Dakota.

Mr. EGGER. Yes; the tip income reporting is quite dramatic. I will ask Mr. Kump to search out the actual numbers.

Senator ABDNOR. All I am saying is that I know it is a field that has been examined.

Mr. EGGER. It is an emotional one. I can say that, and I understand that.

Senator ABDNOR. The emotional part is in a State like my State, in a little town of 300 and 400 that has one little cafe where they don't know what a tip hardly looks like. It makes a real problem.

Mr. EGGER. Right.

Senator ABDNOR. And that is one thing on a ticket, and it does present a problem. I try to explain to these people why it is not all like little towns like where I live, Kennebec, S. Dak., where we have 370 people and one cafe. There are places in this country where it is quite a business.

Mr. EGGER. Let me point out two things. No. 1 is that it doesn't apply to those institutions with fewer than 10 tipped employees, that is, employees who earn part or all of their income from tips, so that the really small enterprises aren't affected.

The second thing I would point out is that, using a data base developed for the restaurant industry, a study by the University of Illinois shows that pretty much across the board throughout the country, the tip rate is about 13 to 15 percent of gross sales where tipping is customary, so that our 8 percent figure is, in my judgment, quite modest.

Now, let's take a look at what has happened in the tip reporting area since the beginning of 1983. For the first quarter, the tip income reported on the form 941's went from $220 million in 1982 to $420 million in 1983. For the second quarter, it went from $250 million in 1982 to $547 million in 1983. That is a 119-percent increase. For the third quarter, it went from $256 million in 1982 to $560 million in 1983, another increase of nearly 120 percent. So I am suggesting that our information was accurate, this is an area that was grossly underreported and certainly needed the provisions that went into the TEFRA legislation.

Senator ABDNOR. It could really be a $2 billion figure.

Mr. EGGER. Yes.

Senator ABDNOR. How much do you suppose it was before we got into this area? I mean, in 1982 it was not reported. That would be about half that, would it?

Mr. EGGER. Yes; certainly no more than half that. Based on our unreported-income estimates it appears that the underreporting in the tip area was something like 83 percent. It was clearly one of the largest areas of noncompliance in the whole array.

Senator ABDNOR. Do you think this may increase as time goes on?

Mr. EGGER. Yes, I think so. As you know, we are under a congressional mandate to carry out a study this year and next to try to analyze in more definitive fashion the statistics and, as I said, our preliminary look-see is that the 8 percent is still going to come out very low.

TRANSFER AUTHORITY FOR DOCUMENT MATCHING

Senator ABDNOR. Off on another subject. You speak of a 15-percent transfer authority with regard to document matching. Can you explain exactly what you are going to do?

Mr. EGGER. Yes; this is the document matching area, and the reason why we need that significant amount of transfer authority is to enable us to redirect staff from document matching to the nonfilers program, in order to keep both programs at the maximum output.

Let me go through this in some detail so that I can spell it out. This document-matching program is divided up into five phases. The first is input processing. That is actually entering the data into the system. Second is the perfection of the documents which have missing or incomplete data for one reason or another, and third, of course, is the matchup itself, as well as the followup from the matchup. In other words, we match up aggregates, and then we need to refer to the return itself in order to compare the details, and then fourth we do the followup in the case of mismatches, and then fifth we followup in the case of nonfilers, where we don't have a return in the master file when we attempt to match up.

In other words, we get 1099 data, and we don't have a return filed in the master file itself, so we have to follow that up, and that is a major part of our nonfiler program as well as dealing with the other information such as social security and other documents.

Structurally, resources for document matching are financed within three of the operating appropriations. In other words, once we get to the point where we do the actual matchup, then we may have involved exam for direct followup with the taxpayer, we may have involved returns processing personnel to determine there is in fact an underreporting and to assess the tax and we may have to involve collection to secure delinquent returns.

So that, because of the necessity to move resources for this particular function alone within these three appropriation areas, we are asking for such significant transfer authority there.

The maximum that we could move under that particular limited authority would be $15 million.

Senator ABDNOR. $15 million?

Mr. EGGER. Yes; $15 million, that is the maximum we could move. We are obviously not asking for 15 percent authority on our whole budget, but only on that very narrow area, and $15 million would be the maximum we could redirect.

Senator ABDNOR. Fine.

Mr. EGGER. For that purpose.

ADP AND SYSTEMS MODERNIZATION

Senator ABDNOR. We talked about the ADP systems and what you need in the years ahead, and that is in the budget. We are obviously seeing some great results on that. I have to believe all the things you have been able to do have been the direct result of ADP, is it not?

Mr. EGGER. A good bit of it, yes, sir, the direct result of it.

Senator ABDNOR. I know management comes in, too, but you still have to have——

Mr. EGGER. I certainly want to contend that we have improved the management of the agency as well as the technology efficiency.

Senator ABDNOR. How far does that take us with the next fiscal year in additional ADP equipment? Is that pretty well going to bring us to where we want?

Mr. EGGER. I think we are not at that point yet, Mr. Chairman. We have about 75 projects on the drawing board. As I already mentioned to you, the automated collection system is coming pretty much on stream this year. We are not beginning to realize the real benefits from that.

The automated exam system will be coming up in fiscal years 1985 and 1986, and probably will even carry over a little bit after that. The automated exam system is more complicated than automated collection, but has the potential for improving the efficiency of our examination program in dramatic fashion.

Probably the most significant thing that we will be doing in the rest of this decade will be the tax processing system redesign. Here, we are still, even though we have reequipped these service centers to a degree, we are still operating under a system that was designed in the early 1950's, and it includes a batch processing system that does not permit random access into the master files and all that.

We expect over the next 3 to 3½ years to redesign the entire processing system, and this will have dramatic effects on how we do our business in the years to come. So that is probably the most significant thing that we will be doing any time in between now and the 1990's. Another project is the so-called distributed input system—which will permit us to input data into our central system from literally any location in the country. We are already piloting that in the case of our payroll system. We are now inputting payroll information into our Detroit data center from the districts around the country.

Senator ABDNOR. While we are talking about ADP system in general, the Government as a whole is really quite a ways behind industry, are they not, in this field? I assume that.

Mr. EGGER. I think that is certainly a true statement, and certainly the Internal Revenue Service was in that category. I am pleased to tell you, though, that I think we are coming to the point of really taking the lead. In other words, I think we will be the leading edge of the utilization of the state-of-the-art techniques within the next 2 years.

For example, we are already underway with what we call archival image storage. This is a technique through which we can copy a document onto a disk about the size of a 12-inch record, and we copy that document through the use of laser technology, which in effect burns the image on the disk, and we can store 150,000 documents on one 12-inch disk. That will permit us to eliminate a significant part, if not all ultimately, of the millions of square feet of space that it takes now to store all these documents, to say nothing of the fact that that, together with an effective telecommunications system, will permit us to retrieve a return and actually make a physical copy of that return from anywhere in the country within a matter of seconds, as against the 6 to 8 weeks that it takes right now.

So it is that kind of thing that we have out in front of us here over the next 6 to 8 years.

Senator ABDNOR. You say your productivity now is up 12 percent.

Mr. EGGER. Yes.

Senator ABDNOR. How do you make that determination, the number of returns processed?

Mr. EGGER. Yes; the number of returns that we have processed in the past, using economic and demograhic data as inputs in estimating techniques. We project what kind of volume we will have over the next several years.

Senator ABDNOR. No sense competing with that buzzer.

Mr. EGGER. They wanted to be sure you heard it.

Senator ABDNOR. It is all right to start now.

Mr. EGGER. Incidentally, Mr. Chairman, we have made up a listing of the dollars that go to make up this $64 million increase showing which of these particular projects that money will go to. I would be happy to submit that for the record.

Senator ABDNOR. We would like that for the record.

Mr. EGGER. Yes; I should tell you we have identified on here the projects which have already been approved and which are underway. The bulk of this money, about $45 million of the $64 million, is simply to keep up the momentum. The balance of it is for new projects.

Senator **Abdnor**. That is great. We would like to have that.

Mr. **Egger**. All right, fine.

[The information follows:]

ADP AND SYSTEMS MODERNIZATION PROJECTS

	Amount
On-going projects:	
Automated examination system	$6,000,000
Increase examination productivity and quality of examinations. Accelerate posting of changes to accounts and improve control of workload.	
Distributed input system	5,700,000
Replace existing data entry equipment which is becoming inoperable. Continue installation of equipment in all service centers.	
Equipment replacement program	9,700,000
Upgrade all service center replacement systems. Allow system to meet projected workload volumes.	
Integrated data retrieval system	4,300,000
Complete second phase of terminal replacement. Replace existing equipment which is unable to meet the requirements of new applications and workload growth.	
Software support	5,000,000
Provide resources needed to cover demand for contractual support services. Assist the Service in meeting overall goals by providing maintenance and generalized automation services.	
Optical character recognition	4,900,000
Apply optical character recognition technology to the processing of tax-related documents to speed processing and reduce errors. Test the use of OCR technology to the processing of the 1040EZ tax form. Increase revenue by accelerating deposits and identifying underreporting of income.	
Data communications processing system	3,000,000
Upgrade service center communications processors. Required to support the integrated data retrieval system.	
Payroll modernization	5,700,000
Allow remote input of payroll and personnel information. Achieve staffing reduction at the data center and provide a much more responsive system.	
Other automation projects	800,000
Conduct research on the application of state-of-the-art technology. Install high-speed print systems at service centers.	
Subtotal, on-going projects	45,100,000
New projects:	
Information returns program—management information system	4,100,000
Develop and procure a system to provide data on IRP volumes, costs, and results. Improved management information will yield $15 million in revenues in 1987 and $50 million by 1990.	
Integrated communication network	11,000,000
Develop a servicewide communications network utilizing modern switching technology. Reduce communication costs by reducing redundancy in circuits and communication lines.	
Other automation projects	3,800,000
On-line error resolution at service centers. Automation employee plan determinations.	
Subtotal, new projects	18,900,000
Total fiscal year 1985 program increase	64,000,000

BUDGET CUTS

Senator ABDNOR. The administration, as you are well aware, is planning reductions in grades 11 to 15. I never have been one to say we shouldn't do what we can to try to reduce the bureaucracy. I also have a feeling that a blanket reduction has the same impact as an across-the-board budget cut, which I have never been for, because I think there is a place for cuts and places where you have already cut all you ought to cut. That kind of bothers me.

Some agencies might be adversely affected because if you go across the board, you wouldn't really be accomplishing what you intended. What is your thinking on that? Would you just take a flat percentage of 11's to 15's?

Mr. EGGER. It is troublesome to us as well, Mr. Chairman, because, just to give you two examples, the entry level for all of our legal positions, that is, the 1,100 positions for lawyers in our Chief Counsel's Office, the entry level is grade 11, so, as you can see, they all fall into that category of 11 to 15.

In our revenue agent cagetory, all our journeyman revenue agents are at the grade 11, so that if we start pushing those grades back down all the way, we see a significant effect on it.

So what we have done is, I have appointed a task force to study this in depth, and we will be working with the Treasury and with the Office of Budget and Management to assess the full impact of that kind of an approach, and our hope is that it will wind up being looked at in that way.

Senator ABDNOR. We will be interested in hearing the outcome of that.

Mr. EGGER. We will certainly keep you posted on it.

Senator ABDNOR. I have a lot of that in here, and my section of the budget that I chair is mostly people programs, and we are talking mostly about—well, I guess anyone working for Government is in the same situation—but we are interested in knowing about this. Although it sounds good on the face of it, you have to think about it.

Mr. EGGER. I think there is no question but that both you and I would support the idea of making certain that positions are not overgraded. By the same token, we do want to take a long and very, very close look at the impact of doing it in any other fashion.

GROWTH IN REVENUE

Senator ABDNOR. You are absolutely right.

We used to say the reason for increased revenues in Government was inflation. That can hardly be said now. What did we pick up, $72 billion extra in projected revenue? Were we talking about that? We talked about some of those things. What would you say the biggest increase would be attributed to, the fact that we are doing a better job of collecting because, inflation being what it is——

Mr. EGGER. Our estimate of the gross and net revenue collections over the next 2 years, that is, 1985 and 1986 both, compared with 1984, goes something like this: Looking at all classes of returns—these are individual, corporation, excise, employment tax, and all that—it goes from $681.2 billion in fiscal year 1984 to about $747.8 billion in fiscal year 1985, and then goes up to $822.3 billion in fiscal year 1986.

Now, to some extent, this is inflation, but it also reflects changes in the population and the growth in the GNP as well. All of these estimates have been put together by the economists at Treasury and OMB, and reflect all those factors. I don't think I have seen anything that reflects only the inflation.

Senator ABDNOR. I think some might be because of the results of your better auditing, too.

Mr. EGGER. Yes; I think that chart there is the most reflective of what we have done in terms of improving the effectiveness of the tax system. I think it is important, Mr. Chairman, to focus on the fact that although we have doubled, in that 5-year period, we have doubled the revenue collections from direct enforcement, nonetheless, that $33.8 billion there has to be looked at in contrast with something in the neighborhood of $750 billion that gets collected, so that, still, the vast bulk of the revenues that come in to pay the costs of this Government are coming in on a voluntary basis.

Senator ABDNOR. The Service is going to need 903 positions less in fiscal 1985. Will attrition be sufficient to absorb these positions, or will you have to have a RIF?

Mr. EGGER. No, no; that will all be taken care of in our attrition. There will be no RIF's from all of that.

ELIMINATION OF IN-HOUSE PRINTING

Senator ABDNOR. All right. The Service plans to eliminate in-house printing during fiscal year 1985. Will all these services be contracted out now? Is that the idea?

Mr. EGGER. Yes; most of the printing we contract out anyway. We have a little bit that we have to do in-house, but the vast majority of it, we simply couldn't handle.

Senator ABDNOR. Wait until the buzzer is done, one more time.

Mr. EGGER. I will get used to these after awhile.

Senator ABDNOR. OK.

Mr. EGGER. I started to say that the bulk of our printing, and believe me we are one of the largest purchasers of printing anywhere in the world, is all contracted out among a number of contractors. I don't think it would be feasible for us even to do that with one, and certainly we couldn't do it in-house. We have had a little printing capability in-house, but we are phasing that out, and we will come down to almost nothing.

Senator ABDNOR. Do you think it is cheaper, anyway, to contract out over the in-house?

Mr. EGGER. Yes.

FORMS SIMPLIFICATION

Senator ABDNOR. Would you give us a quick rundown on the impact of the simplified forms, the effect they are having?

Mr. EGGER. Yes, I will. I think one of the most dramatic things we have done in the last 2 years is the development of this 1040EZ, which is a one-page form with only 11 lines on it, and we fill out one of them for the taxpayer so they have only got 10 lines to complete.

Last year, we had nearly 15 million of those filed out of a universe, we estimate, of about 20 million people eligible to file it. This year, we hope to see that go up to something closer to 16 or 16.5 million.

The part about the EZ that is helpful is, not only is it an easy form to follow so that people can, with very little assistance, prepare that return themselves, but we have designed it this year so that it is machine readable, so we will be machine processing about 40 percent of those returns, that is, of the EZ returns this year. That is to say, we will not have to manually transcribe the data from the return into the master file system, but it will be done electronically.

We have also, by changing two line items on the 1040A to include child care deductions and the IRA credits, that is, the IRA deduction, have made it possible for about 2 million more people to file that simpler form and move from the more complicated 1040 form.

So I think that the efforts that we have made and that we will continue to make over the future are very helpful in cutting down the paperwork and the impact in that regard.

Senator ABDNOR. I am sure the citizens like it, too. It makes it easier.

ORGANIZED CRIME TASK FORCES

In another area, or subject, a considerable number of positions and resources have been assigned to the organized crime task force.

Mr. EGGER. Yes.

Senator ABDNOR. And I don't want to compromise any ongoing investigations, but are we accomplishing what we had hoped for there?

Mr. EGGER. I think so. I am satisfied that these task forces are very effective. They have already produced a number of cases. We have got some 220 positions working with these specific task force groups around the country, but in addition we have probably got something more than half of our investigative strength assigned to what we call our special enforcement program, and this is organized-crime very, very heavily weighted in the drug-trafficking area, as well as in other areas in the organized crime world, such as illegal gambling, prostitution, et cetera.

We see that as a necessary part of our overall investigation of tax crimes, because by far and away the most egregious of the crimes in the tax world are combined with and are part of other highly antisocial criminal activities.

DELINQUENT TAXES

Senator ABDNOR. What is the outstanding tax liability due the Federal Government? Do you have any idea at all?

Mr. EGGER. Well, our accounts receivable at the end of fiscal year 1983 were about $23.4 billion. The advent of automated collection system, together with the increase in staffing that was provided in fiscal year 1983, is now being felt. That is to say, we are, in my opinion, just around the corner from seeing that turn down for the first time in a number of years.

Prior to fiscal year 1982, and then following on into fiscal year 1982 and early fiscal year 1983, we had a tremendous increase in the number of tax delinquent accounts. It just went up dramatically, so that despite an increase in case closings in the last fiscal year of 32 percent, nonetheless the inventory was still slightly higher than it had been the year before.

However, in my opinion, by the beginning of fiscal year 1985, with two factors, one the improvement in the economy, and the other the dramatic improvement in our efficiency, we should see a downturn for the first time in a long while of delinquent accounts, and I believe we are on the right track there. I think that we have now the resources in place to cope with that whole problem.

I think with what we have, and what we have in place right now, we will be able to deal with it.

NONTAXABLE INCOME

Senator ABDNOR. I had a conversation last week with a National Guardsman in my State and I had the Adjutant General and the Commander of the South Dakota Air National Guard and some other people in, and these are fine individuals I have great respect for, and they informed me that the IRS was considering denying deductions for home-mortgage interest and property taxes paid by members of the Armed Services and the National Guard who received tax-free housing allowances.

I bring this matter up at this time so that you and all your top staff we have here may realize that if any changes are to be made in the deductability of home-mortgage interest and property taxes with respect to members of the military and the National Guard, that the changes should be made by Congress, and not as an IRS revenue ruling.

I am sure you are going to hear more about that from others than just me.

Mr. EGGER. I assure you that I have, and I will, but what I would like to say, Mr. Chairman, is that we and the Treasury Department looked very hard at this.

As you probably know, there is a provision in the Internal Revenue Code which says in substance that you cannot claim deductions for things which are paid out of money that isn't taxable income, and we are attempting to apply that in such areas as schooling, which is paid for by Veterans' Administration appropriations and mortgage payments for ministers that are exempt under the law, as well as the military. So what we have done is indicated that because this is a concept which hasn't had as much public discussion as it should have had, we have deferred any effect of that until 1985, thus giving the Congress ample opportunity to act on this thing.

I couldn't agree more with you. I think that the Congress should decide whether or not they want to make an exception in the case of the military, or ministers, or other people falling in that problem area.

Senator ABDNOR. I appreciate your saying that, because I think it is a big issue and needs a lot of discussion, and I am sure Congress would jump into it if you did go ahead.

Mr. EGGER. I feel certain that Congress will stand right up to it.

TAXPAYER CONCERN

Senator ABDNOR. It has a habit of doing things. I wanted to ask you about one incident here that happened with one of my constituents. I could very well talk to you about it afterwards, but I wonder how often things like this happen.

This person—I can't say that I know him that well, but back in South Dakota we know everyone pretty well, with no larger population than we have, but I really don't know this person. I know they have had quite a time.

They were contacted by the Internal Revenue Service, the Ogden office, several years ago, with a bill stating that they had not deposited their tax due, and always they had, and they had a copy of the check that showed it was cashed. I don't know how many years this has been going on, and I am not going into it in detail. They hired attorneys, they—I mean, the guy is basically a very honest guy. He is being threatened with being thrown in jail.

I guess he was talking to a machine all this time. I don't know what else. But after it got all through—did they get into court on this? I guess they didn't get into court. They said they were OK, and more or less apologized and walked away leaving this guy with all kinds of bills.

Now, are we ever going to do anything about things like that? In a case like this, I really think the Federal Government ought to be responsible to pay the man's costs, his attorneys' fees, especially when he was innocent from the beginning, he had the proof, but somehow he couldn't get through to somebody who knew about it.

Mr. EGGER. I appreciate those kinds of problems. Obviously, we don't want them to happen——

Senator ABDNOR. No; I am sure you don't.

Mr. EGGER [continuing]. And we understand that occasionally those things do happen, but I think it is important for you as well as other Members of Congress to know about our problem-resolution program so that when those things occur people will know, and we are doing everything we can to publicize that. If they will contact the problem resolution officer in the district, that individual has the authority to cut across functional lines to get at the problems where there is a glitch in the system, or an error.

The problem resolution officer can, in most cases, get at the heart of it and find out what the problem is and get it resolved

I would urge that—in this case I don't know whether that took place or not—but I would certainly urge that you or members of your staff and members of the staffs of all the Members of Congress be acquainted with our problem resolution program and use it.

We will certainly make every effort to continue to publicize that ourselves.

Senator ABDNOR. Something has got to be done. I felt strong enough about the letter that I wrote you a longhand, scribbled note. I told whoever read that letter they had better get it to you because I was going to ask you this question. I don't know if it ever got there or not. I mean it. I am going to——

Mr. EGGER. I know about it. I don't know what the status of it is.

Senator ABDNOR. I don't write too well, and I wasn't writing too well that day, but I am sure you could read what I was saying, and so we will keep on talking to you about this letter. I know you have a lot of things to be doing.

ADDITIONAL COMMITTEE QUESTIONS

We have some questions for the record, and I know Senator DeConcini would have questions. We will hold the record open.

Mr. EGGER. Most certainly.

Senator ABDNOR. I think we could have gone into tax shelters and a lot of other things, but the hour is getting late, so we will just submit questions we do have in writing. We thank all you gentlemen for being here today, and I am sure we will be back in conversation about some of these things.

Thank you very much.

Mr. EGGER. Thank you, Mr. Chairman.

[The following questions were not asked at the hearing but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY THE SUBCOMMITTEE

NONCOMPLIANCE TREND

Senator ABDNOR: Given the various major tax bills in the past few years, such as Economic Recovery Tax Act, Tax Equity and Fiscal Responsibility Act and Dividend Tax Compliance Act of 1983 that have directly or indirectly affected tax noncompliance, what is your overall assessment of the trend of tax noncompliance? Is it getting worse? If so, what specific patterns do you see developing?

Mr. EGGER: The effect of TEFRA on tax compliance is expected to be substantial. The Budget of The United-States Government, Fiscal Year 1985 shows the projected amount of tax increase from the compliance and collection provisions of TEFRA as $4.7 billion for fiscal year 1983, $12 billion for 1984, and $9.4 billion to $9.9 billion for fiscal years 1985 through 1987. It is a bit early to be able to verify these projections because the returns affected are just now being filed. If these projections are correct, we would expect compliance levels to improve for at least several years.

EFFECT OF TEFRA

Senator ABDNOR: How effective have the additional and strengthened tools provided by TEFRA been in curbing tax noncompliance?

Mr. EGGER: Projections of the effectiveness of TEFRA are available but it is generally too early to see the actual effects. We do have some early indication of the effectiveness of the tip provision. The amount of taxable tips reported in the first three quarters of 1983 is more than double the amount reported in the same period in 1982. Most of this enormous increase appears to be due to the new TEFRA reporting requirement.

Taxable Tips Reported on 941's[1]

Quarter	1982	1983	%Change
	($millions)		
I	220	420	91
II	250	547	119
III	256	560	119

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[1] Returns of eating and drinking places which filed in the same quarter of each year.

ACTIONS TO CLOSE THE TAX GAP

Senator ABDNOR: What more could be done to curb the tax gap, both legislatively and administratively? How much additional revenue can realistically be collected?

Mr. EGGER: Over the past year or so, the Department of the Treasury, in consultation with the Service, has made several legislative suggestions designed to help close the tax gap. A brief description of some of their proposals and their current status follows. (Note: The Office of Tax Analysis in Treasury is responsible for revenue estimates of all legislative proposals).

Require tax shelter promoters to retain a list of names, addresses and identifying numbers of investors for a period of 7 years after the investment has been sold.

This proposal will alow the IRS to more effectively identify investors in "abusive" tax shelters. Present law is unclear as to whether tax shelter promoters are required to maintain records of investors. Such a requirement is particularly important where the shelter is not organized as an entity; e.g., a partnership. In this kind of situation, if the IRS identifies an improper shelter through an audit of one investor, it often experiences difficulty in locating other investors.

This proposal was endorsed by the Assistant Secretary (Tax Policy) in testimony before the Senate Committee on Finance (June 23, 1983). It is included in S. 2062 (Omnibus Reconciliation Act of 1983).

Allow the Director of Practice to disqualify appraisers from representing taxpayers if they have been determined to have engaged in disreputable conduct.

The overstatement of deductions and credits based on the overvaluation of assets is a serious tax compliance problem. Unfortunately, an appraiser's opinion is often a key to these overvaluations. Treasury can disqualify a taxpayer's representative from practice before it if the representative engages in disreputable conduct. This rule should be extended to include the presentation of opinion evidence by an appraiser who has engaged in such conduct; e.g., an appraisal is furnished that is palpably incorrect either with the intention of materially misstating the value of an asset or as a result of gross negligence.

This proposal was endorsed by the Assistant Secretary (Tax Policy) in testimony before the Senate Committee on Finance (June 23, 1983). It is included in S. 2062.

Apply penalties relating to return preparers, substantial understatement of tax, and improper valuation of property to estate and gift taxes.

These three recently enacted compliance provisions do not apply to estate and gift taxes. Since self-assessment principles are no less critical to the collection of transfer taxes than they are to income taxes, this expanded application of the penalties would be a useful compliance tool. It should be noted that the TEFRA penalty for aiding and abetting understatement of tax liability applies to transfer tax returns.

This proposal was endorsed by the Assistant Secretary (Tax Policy) in testimony before the Senate Committee on Finance (June 23, 1983).

In cases where items on separate returns filed by spouses (or former spouses) are related (e.g., alimony payments and alimony income), require both spouses to report on his/her return the SSN of the other spouse.

To insure compliance in the reporting of income, deductions, and credits by related individuals, the SSN of both parties is important to the IRS to facilitate timely association of the returns.

H.R. 4170 includes this provision in cases involving the payment and reporting of alimony. The proposed amendment was endorsed by the Deputy Assistant Secretary (Tax Policy) in testimony before the Ways and Means Committee (July 23, 1983).

Require information reporting on the following areas:

a. A person who receives home mortgage interest during the course of his trade or business will report the payor's name, address, taxpayer identification number, and amount paid to the IRS. This provision is included in S. 2062.

b. A creditor who forgives or otherwise discharges a debt will report the name, address and taxpayer identification number of the debtor and amount of the forgiven debt to the IRS. The provision is also included in S. 2062.

In addition to the above specific items, the Service also strongly endorses the tax shelter proposals in the Administration's FY1985 budget submission which are under active consideration by Ways and Means and Senate Finance Committees. These proposals are part of a continuing effort to eliminate abuses in the partnership tax shelter, accounting, and corporate tax areas.

DELINQUENT TAXES

Senator ABDNOR: The amount of delinquent taxes owed the Federal Government continues to grow even though there was a significant increase in IRS' collection staff. At the end of fiscal year 1983, delinquent taxpayers owed the Federal Government $27.1 billion, a 10 percent increase over the prior year. Can you tell us why delinquent taxes continue to increase even with the additional collection staff?

Mr. EGGER: The amount of delinquent taxes owed at the end of FY 1983 was $23.4 billion, a decrease of 5% from FY 1982. The additional staffing provided Collection played a major part in this reduction. With the extra staffing, we were able to increase dollars collected from $7.1 billion in FY 1982 to $9.6 billion in FY 1983, a 35 percent increase.

Senator ABDNOR: Is this delinquency problem something that cannot be handled with increased staffing? If so, what actions are needed to collect these delinquent taxes?

Mr. EGGER: With the increased staffing we are beginning to see a reduction in delinquent taxes. Also, we are taking major steps in office automation to help us increase our collection efficiency without further staff increases. We successfully implemented the Automated Collection System (ACS) in four sites in Fy 1983 and will complete nationwide implementation during FY 1984. This system provides state of the art computer and telephone technology for improving our Collection efficiency. Early results indicate this system will provide further productivity benefits. We are also looking into further automation that will remove clerical and paraprofessional burdens from revenue officers. We are continuing automation efforts for our Special Procedures and Service Center Collection functions to streamline those paper burdened operations.

We believe the combination of the staffing increase and our automation efforts will allow us to deal effectively with the delinquency problem.

Senator ABDNOR: During last year's appropriation hearings you stated that the main delinquency problem was with small businesses not paying employment taxes. What specific actions have you taken to reduce these employment tax delinquencies? Do you have any plans for other programs in this area?

Mr. EGGER: One of our main programs for reducing employment tax delinquencies is the Federal Tax Deposit (FTD) Alert Program. This program allows us to identify and contact noncompliant business taxpayers early, even before the return is due to prevent further delinquencies. We have made several program changes that will result in greater coverage under this program.

To help us further in addressing this problem, we are making more prevalent and efficient use of the authority to assess delinquent employment tax returns where the taxpayer will not voluntarily file. This allows us to resolve the delinquency and collect the taxes much sooner. We are also looking into more efficient use of "within house" data, on sole proprietorship and partnership in identifying levy sources.

Finally, to address the problem of the increase in employment tax delinquencies, we have assembled a cross functional task force to perform a strategic review of employment tax compliance.

OFFICE AUTOMATION

Senator ABDNOR: During last year's appropriation hearings, IRS mentioned it was working toward office automation of Collection Field and Special Procedure Functions. What is the current status of these projects?

Mr. EGGER: The automation of the Collection Field function is a substantial project that will be accomplished during the next three to five years. Rather than automating current work processes, we plan to review and streamline the revenue officer position prior to automation. We are currently in the planning stages of the project.

The national project for automating our Special Procedures Functions is being developed as planned. A project team was established in our Southeast Regional Office in Atlanta and has been working, together with us on the overall system design. Several of our regional offices are sharing responsibility in working with a contractor to develop functional requirements and specifications packages. The contractor just recently delivered the first program on Federal Tax Liens processing to our Atlanta pilot site. We expect to complete this project late in FY 1985.

Senator ABDNOR: Have you obtained any preliminary results on the potential savings based on automating Collection Field and Special Procedure Activities? If so, what are they?

Mr. EGGER: We are still in the early stages for both these projects and have not experienced actual savings yet. Our preliminary estimates are that staff year savings from these projects, up to several hundred staff years, will offset the equipment costs early in the project life and that additional savings will appear as the projects go operational.

LEVY

Senator ABDNOR: Over the past few years there have been a number of proposals to require IRS to obtain court orders before levying taxpayer property. Levies are an important part of IRS' collection program and their use is increasing. In fiscal year 1982, IRS used its levy power over 1 million times. How many times did IRS use its levy power in Fiscal year 1983?

Mr. EGGER: The IRS used its levy power 1,390,900 times in FY 1983.

SENATOR ABDNOR: What safeguards does IRS use to assure that its levy powers are not abused?

MR. EGGER: The Service takes every effort possible to ensure that its levy powers are used appropriately. These safeguards apply both when we levy on property in possession of third parties and and when we levy (seize) property in possession of the taxpayer. Prior to levy, the IRS sends as many as four notices to the taxpayer requesting payment. The last two notices specifically advise the taxpayer of the Service's intention to levy if our request for payment is ignored. In cases of levy on salary or wages this notice must be given to the taxpayer in person, left at the dwelling or usual place of business of the taxpayer, or sent by certified or registered mail to the taxpayer's last known address, no less than 10 days before the day of levy. To avoid improper levy action we research our computer to ensure that the taxpayer has been given credit for all payments. In addition, the IRC and Service procedures exempt certain property from levy where levy would result in hardship on the taxpayer.

Levy on property in possession of the taxpayer is accomplished through seizure. The IRS requires that all other administrative methods be considered before seizing property and prior to seizure we are required to attempt personal contact to inform the taxpayer of our intent to seize. All seizure cases require approval by a group manager. The group manager is responsible for review of each seizure case to determine that all other avenues of collection have been exhausted, and that the case warrants seizure activity. In a situation where seizure of a personal residence is required, second level management (Field Branch Chief) is required. In addition, group managers are required to make periodic inventory reviews to determine that levy procedures and other manual requirements are followed by collection personnel. Adherence to procedures is reviewed both at the district level as well as during regional and National operational reviews.

Senator ABDNOR: What effect would the requirement of having a court order before levy action have on IRS collection activities?

Mr. Egger: I believe the requirement for a court order prior to levy would have a devastating effect on our attempts to control delinquent taxes. We use our levy powers as our major tool in collecting taxes from taxpayers who will not cooperate with us. Both our service centers and ACS sites are bulk processing operations that require current levy authority to operate effectively. Requiring a court order prior to levy would virtually eliminate enforcement actions by these functions. We estimate that approximately 50% of cases closed by ACS are a result of levy activity. Such a requirement would seriously jeopardize the efforts we are making toward improved efficiency through automation while at the same time delay revenue collections and increase workload to our district offices. With over 1.3 million notices of levy served in FY 1983, such a requirement would clearly overwhelm the judicial system. I believe the safeguards we outlined provide taxpayers adequate protection.

MANAGEMENT INFORMATION

Senator ABDNOR: IRS does not have adequate information and evaluation systems to determine the cost and effectiveness of its various collection programs. This has been pointed out in a number of GAO reports and in past appropriation hearings. In last year's appropriation hearings IRS mentioned that some systems were being developed that would provide the information necessary to make these evaluations. What is the current status of these information and evaluation systems?

Mr. EGGER: Collection has an extensive management information system (MIS) that allows it to evaluate the effectiveness of our Collection programs. The Collection MIS is constantly monitored and modifications are made to secure necessary evaluative data. We are currently enhancing the MIS data for the Automated Collection System (ACS) to ensure that we can properly determine the efficiency of ACS. In 1983, we established a new case tracking system, Collection Research File (CRF). This is a computer based system, maintained at the National Computer Center, which allows us to track the results of Collection activities over extended periods of time. In this way, we will be better able to monitor the long range impact of Collection programs on taxpayer compliance. To enhance our ability to attribute costs to Collection actions, we are beginning a test of a revised method of gathering cost data by activity from our district offices. This cost data will be incorporated into our Workload Priority and Selection System (scheduled for full implementation in FY 86), which will identify and issue Collection work according to potential yield and overall cost benefit.

Senator ABDNOR: Do you have any results to date on the cost or effectiveness of any of the collection programs? If so, what are the results?

Mr. EGGER: We do capture data on the cost effectiveness by our major program areas. For FY 1983 in the accounts receivable program, we collected $24 for each $1 spent. In the delinquent returns program, we collected about $15 for each $1 spent.

Senator ABDNOR: What steps have been taken to assure that evaluation systems be built into any new programs developed? For example, what systems have been designed to evaluate the Automated Collection System?

Mr. EGGER: To assist in the evaluation of the performance of the Automated Collection System (ACS), we developed an ACS Impact Report. This report compares ACS workload data with workload data on the district operations which it replaces. This data is analyzed to determine if the system is meeting our expectations. Initial reports indicate that ACS is in fact closing cases at a lower cost, one of the objectives of the system. Additionally, we are continuing to review the ACS system as well as procedural guidelines to make changes necessary to improve the system. We take a similar approach in establishing evaluative systems for any new program.

FEDERAL TAX AMNESTY

Senator ABDNOR: There has been much talk recently about a one-time amnesty program for delinquent Federal taxpayers similar to the one Massachusetts used at the state level. IRS generally opposes the amnesty approach for delinquent taxpayers. What is your basic opposition to using a one-time amnesty program for delinquent taxpayers?

Mr. EGGER: At this time, the Service does not favor implementation of an amnesty program at the federal level. The major benefit associated with an amnesty is the potential for bringing non-filers back into the tax system, along with the revenues collected from them. However, we believe there are a number of serious drawbacks to the idea. For example, honest taxpayers may perceive an amnesty as "special treatment" for dishonest taxpayers, and therefore unfair, inequitable, and contrary to IRS' policy of administering the tax laws uniformly. Moreover, instituting one amnesty might encourage the belief that the offer will be repeated in the future, leading to non-compliance in the interim.

A federal amnesty program also would run counter to the overall thrust of the Tax Equity and Fiscal Responsibility Act (TEFRA) of 1982, P.L. 97-248, which provided a major emphasis on complying with federal tax laws and boosted the Service's enforcement capabilities.

Non-compliance in all its forms and the myriad of problems associated with it are the major issues facing tax administration today. The Service is continuing its research into the causes of and solutions to non-compliance, as well as using the tools provided by TEFRA to the fullest. At this time, we believe this approach is preferable to a federal tax amnesty program.

Senator ABDNOR: Have you made any studies to determine the potential for an amnesty program?

Mr. EGGER: We are now engaged in a study whose objectives are as follows:

- In the summer of 1984, we plan to have a report containing detailed data on state tax amnesty programs for our consideration in dealing with proposals for federal tax amnesty.

- In the fall of 1984, we plan to have a more complete report dealing with amnesty.

DELINQUENCY PREVENTION

Senator ABDNOR: An important part of IRS' collection mission is to prevent tax delinquencies from occurring. One prevention program IRS uses is its Federal Tax Deposit Alert Program. Under this program, IRS contacts certain businesses which have not deposited employment taxes in the Federal Tax Deposit system. The contacts are made before the businesses' tax returns are due to prevent delinquencies and promote compliance. What results have you experienced from the Federal Tax Deposit Alert Program? How many alerts were issued during fiscal year 1983? How many of these business did you prevent from becoming delinquent? What is the cost of this program?

Mr. EGGER: Approximately 81,000 FTD Alerts were worked by the district offices during FY 83. These contacts allowed us to identify and deal with employment tax delinquency at its earliest stages, thereby preventing further pyramiding of the liability. During FY 1983 we spent approximately $2.5 million on the FTD Alert Program.

Senator ABDNOR: What other programs does IRS use to prevent delinquencies? How do these programs operate? What are the results of these programs?

Mr. EGGER: In addition to the FTD Alert Program, we use the Trust Fund Compliance (TFCP) and Returns Compliance Programs (RCP) to help prevent delinquencies. We use the TFCP program to deal with repeater delinquencies. This program permits us to require taxpayers to file and pay taxes monthly, in lieu of quarterly, and in more aggravated cases to require tax deposits to a special bank account, with criminal prosecution potential for noncompliance.

RCP programs permit us to identify taxpayers not already on the Service's records. During FY 1983 our major RCP emphasis was on noncompliance among truck owners with highway use tax. Additionally many of our districts conducted local RCP programs to address noncompliance pockets. Although the return on RCP programs nationwide runs about $3 for each $1 spent, we are able to place new taxpayers on our records which ultimately makes the yield far more significant.

Senator ABDNOR: Does IRS have other delinquency prevention programs planned for future implementation? If so, how will these programs work?

Mr. EGGER: Because of our heavy delinquent tax account inventory during the past several years, we have limited new delinquency prevention efforts. We are developing a test of a delinquency prevention program for personal income taxes. The test which is scheduled to start this summer involves sending one or more reminder notices to individuals who incurred a tax liability for Tax Year 1983 stating that they may be liable for estimated tax (ES) filing and payment for Tax Year 1984. We will determine if the reminder notice(s) prompts taxpayers to comply with ES requirements and thereby prevents income tax delinquent accounts. If the test establishes that reminder notices are cost/beneficial, we will establish such a delinquency prevention program.

REVENUE INITIATIVE

SENATOR ABDNOR: IRS' Collection acitvity was authorized over 3,000 new positions in FY 83. One reason that these positions were added was to reduce the amount of accounts receivable. At the end of fiscal year 1982 the amount of accounts receivable stood at around $24.6 billion. Can you tell us whether the addition of these people were helpful in reducing the amount of accounts receivable? What is the current amount of accounts receivable?

Mr. EGGER: The accounts receivable due the government declined to $23.4 billion at the end of FY 1983, a 5% drop from FY 1982. A major factor contributing to this decline is the significant increase in revenue collected resulting from the additional staffing we received in FY 1983. Dollars collected increased from $7.1 billion in FY 1982 to $9.6 billion in Fy 1983, a 35% increase.

STATUTE EXPIRATION

Senator ABDNOR: Has there been any reduction in the amount of delinquent taxes being written off (from the FY 1982 amount of $653.9 million) after the 6-year collection period?

Mr. EGGER: The amount written off due to statute expiration for FY 1983 is not available. For FY 1981 we wrote off $539 million. While the amount written off rose to $609 million in FY 1982, write offs as a percentage of total collections declined in FY 1982:

($000S)	FY 1981	FY 1982
lost to statute expiration	$539,000	$609,000
total $ collected	$12,266,000	$14,521,000
statute expiration as % of total $ collected	4.4%	4.2%

NEW INITIATIVES

Senator ABDNOR: Are you planning any additional initiative to deal with the collection problem or the amount of delinquent taxes being written off? Do you foresee the need for any legislation to futher strengthen IRS' ability to recover taxes owed?

Mr. EGGER: We are continually reviewing our procedures to find ways to improve our collection process. The office automation efforts we described earlier will be our major thrust over the next several years in improving our collection programs. In addition, we are improving procedures in other areas. For example, we are developing data bases that can help locate delinquent taxpayers and identify levy sources. This includes information from third parties as well as improved access to and use of information within IRS. We plan to improve the processing timeliness of information returns as leads for levy sources on individuals. We are looking into using similar returns as leads to levy sources on business taxpayers. We also plan to use the leads more effectively for locating delinquent taxpayers.

We are currently pursuing several potential legislative changes that would help further strengthen our ability to recover taxes. The first is an increase in the redemption revolving fund under the IRC 7810. Under existing provisions, millions of dollars of potential Collections have been lost due to our inability to redeem properties because the fund is exhausted. H.R. 4170 currently before the Congress contains a provision to increase the limit on the revloving fund from $1 million to $10 million.

Other legislative changes we are considering would permit us better access to credit report information and state unemployment information so that we could obtain current taxpayer data to assist us in our collection efforts.

PRODUCTIVITY OF IRS RETURNS PROCESSING SYSTEM

Senator ABDNOR: The Internal Revenue Service's National Computer Center and 10 Regional Service Centers comprise the Service's returns processing system. Returns processing is the Service's primary function with the system processing over 171 million tax returns resulting in gross tax receipts of about $627 billion in fiscal year 1983. Operational performance -- timeliness, productivity, cost, and quality -- is a measure of returns processing system efficiency and management effectiveness. Timeliness measures the calendar days between IRS receiving returns and the return information posting to the taxpayer's account. Productivity measures staff resources used to accomplish a given workload. Cost measures both direct and overhead expenditures for returns processing. Quality measures accuracy and the appropriate application of rules and laws. Monitoring operational performance is critical to the effective management of IRS' returns processing system.

What does IRS use to measure performance of the returns processing system?

Mr. EGGER: There is a system in place in each service center called the Integrated-Management-Planning-Information-System (IMPIS). The basis of this system is a formulation of codes which identify each organizational component in the center (division, branch, section, unit), each function (task) which must be performed, and each program (for example, which type of tax return is being processed). As returns are received in the service center they are sorted into batches and numbered. This number is introduced into the IMPIS and the batch can then be tracked from organization to organization. A report is produced daily which service center management uses to determine what volumes of work are on hand, where they are located and how long they have remained in that location. Thus production bottlenecks can be immediately identified and corrected.

Another element of IMPIS is the employee time reporting system. Daily, each employee fills out a time sheet to indicate his/her organization, what function he/she has performed, what program he/she was working on and how many items were processed. This data is also introduced into IMPIS and a weekly staff resource expenditure report is produced.

The third element of IMPIS is the quality review process. The computer system automatically determines random sample sizes for each program and each employee, based on previous error rates. Samples of work are selected and reviewed by specially trained employees against predetermined defect codes. The results are shared with the employee and his/her immediate supervisor. The error trends can identify such deficiencies as training needs, inadequate procedures or systemic problems.

Service centers are also now required to use .05 percent of their direct staff hours to conduct quality analyses. This is over and above the quality review process described above. Quality analyses are usually conducted by a specially chartered group to track a problem or potential problem back to its cause and recommend corrective action. The problem may be personnel, procedural or systemic.

A number of reports are produced by this system which track actual performance against scheduled, and employee evaluations based on production rates and quality of performance. The production rates and performance standards are also used in determining which employees will be placed in non-work status as production volumes decline.

The Service also publishes mandatory tape shipment requirements which provide for timely receipt of computer tapes at the National Computer Center (NCC) for posting of tax information to the master files and provide the dates by which output from NCC must be shipped and received in the service centers. Actual receipt dates are tracked and this information is shared with the senders for control purposes.

Senator ABDNOR: What trends are indicated by IRS performance measurements?

Mr. EGGER: As I indicated in my opening statement, in the service centers, we are reducing staffing and at the same time we are increasing workload. From FY 1980, we have reduced the staffing to process returns and issue refunds by 28 percent or a total of 6,87 positions. At the same time we are looking to process approximately 19 million or 12 percent more tax returns than we were doing in FY 1980.

Senator ABDNOR: Has IRS developed optimal operational performance indicators and how does IRS' current performance compare with these indicators?

Mr. EGGER: The IRS uses a work planning and work scheduling system for the Regional Service Centers which is based on the operational performance elements of timeliness, productivity, and quality. Because of significant differences in workload complexity, labor force, and physical layout among the service centers IRS has not applied a single set of optimal performance indicators to all service centers. Instead, performance standards are developed for each service center based on its prior year performance updated by the estimated effects of growth in returns volume, legislative changes, and systemic changes. Goals for timeliness, productivity, and quality are established in the fiscal year work plans for each service center after consultation with regional and service center management. Those goals are updated three times a year in work schedules for October-December, January-June, and July-September which are developed through a process similar to the development of the work plan. The work schedules are prepared in greater detail than the work plan and provide three important elements: when work projected in the work plan will be accomplished, the basis for accessioning employees by skills, and the basis for periodically analyzing actual resource utilization relative to availability. Service center productivity has improved significantly over the past several years. Scheduled standards are usually met and frequently exceeded.

Senator ABDNOR: Does IRS have initiatives underway to evaluate the operational performance of the returns processing system?

Mr. EGGER: Two initiatives are currently underway to evaluate the operational performance of the returns processing system. The Service Center Performance Data (Executive Summary) was developed to enable Regional and National Office management to evaluate the performance of the service centers on factors other than those measured in other service center reports. This compendium of highly summarized reports includes data on cash management, inventory management and quality measures as well as data on the Compliance and Administrative Support functions.

We are also working with an outside contractor to develop an improved cost accounting system for the service centers. This new system should:

- accumulate total service center costs by mission related end-products. In addition to common and/or continuing end-products, the system must also cover unique and/or short-term outputs;
- allocate and report total service center costs for each end-product by major categories such as direct labor, supporting labor, equipment, utilities, etc;
- provide back-up reports which break down costs for each end-product by service center functions and organizations;

- to the extent possible be based on the existing Integrated-Management-Planning-Information System and other existing cost collection and determination systems; and

- determine unit costs on an objective and consistent basis to facilitate the identification and investigation of cost differences.

Senator ABDNOR: How will current or future returns processing monitoring initiatives enhance effective management or assure economic use of resources?

Mr. EGGER: There is a study currently underway to determine the feasibility of replacing the Integrated-Management-Planning-Information-System with an on-line, realtime management information system which will use essentially the same elements of data but make the reports available to management much more quickly and at less cost. This information includes, at a minimum, employee time reporting, employee skills data, production workload projection and control, the identification and routing of all documents received at the service centers, and the elimination of manual records and reports.

As tax returns, documents and cases are processed, employees throughout the center will enter, via terminals, numerous transactions concerning these items. Depending on the function, the system will route the supplied information to the appropriate file. Certain transactions which result in management data will be retained on-line to provide management with the capability of querying various files to monitor service center operations and performance. Reports, data summaries, and other such output needs will be generated as they are determined. This new system will provide a much more powerful tool to both service center management and National Office management in monitoring the effective use of resources.

INTEREST AND DIVIDEND COMPLIANCE

Senator ABDNOR: Last year during appropriation hearings IRS testified that if interest and dividend withholdings were repealed for individuals something would obviously have to take its place. At that time IRS cautioned that whatever occurs could have significant budget implications beyond the 92 positions and $8 million IRS had planned to spend implementing the interest and dividend withholding provision (before appeal). Now that withholding provisions have been suspended, can you elaborate on the extent of resources IRS plans to devote in its planned budget to achieve compliance?

Mr. EGGER: Congress added 390 average positions and $15 million to our FY 1984 budget to implement the provisions of the Interest and Dividend Tax Compliance Act of 1983. Resources will be used to draft explanatory regulations, publicize the Act's provisions and verify payee Taxpayer Identification Numbers (TINs).

Our FY 1985 budget contains an additional 435 average positions and $12 million to continue implementing the Act's provisions. We will begin a TIN penalty/backup withholding program directed at payees who fail to provide correct TINs. The Service will improve document matching with optical scanning equipment. We will assert negligence penalties when interest and dividend income earned after December 31, 1983 is not reported. We will also match backup withholding amounts claimed on income tax returns to the amounts reported on Forms 1099.

INTEREST AND DIVIDEND TAX COMPLIANCE ACT OF 1983 - IMPLEMENTATION

Senator ABDNOR: Although withholding on interest and dividend income was repealed, the Interest and Dividend Tax Compliance Act of 1983 did contain some alternative compliance measures. How is the implementation of these measures proceeding?

Mr. EGGER: We plan two efforts to implement the provisions of IRC Section 6676, which provides for penalties if the payer or payee fails to supply a Taxpayer Identification Number (TIN), and Section 3406, which provides for withholding if the payee does not provide a correct TIN to the payer.

We have a procedure by which the Service validates the payee name and TIN against Social Security Administration records. Those payers of interest and dividend income and certain other payers who submit invalid data will be notified of their potential liability for a penalty and will be asked to demonstrate that they have exercised due diligence in obtaining valid combinations. The first payer notices could be issued as early as June 1985. Based on the payers' responses, we will either assess penalties against the payers or assess penalties against payees who after IRS notification do not establish reasonable cause for error or omission.

The program to request payers to start backup withholding when a payee fails to report interest/dividend income will be in place by July 1985. Since payees must receive four notices over 120 days before backup withholding can be started, requests for backup withholding will not actually be made of payers until October 1985.

Senator ABDNOR: What level of effort does IRS plan to devote to penalizing individuals who failed to furnish the correct numbers?

Mr. EGGER: The President's fiscal year 1985 budget includes over 300 average positions for making penalty determinations. Since the first step is to ascertain that the payer tried to obtain a taxpayer identification number (TIN), we will initially contact the payers accounting for almost half of information returns filed. If they can show due diligence then we will assess penalties against payees who after IRS notification do not establish reasonable cause for error or ommission. In subsequent years, we will look at other payers whose information returns have TIN problems.

Senator ABDNOR: Some banks and financial institutions have requested individuals to return their W-9 form only if the Social

Security number that the bank had on hand was incorrect. How will IRS determine whether the individual was "at fault" for purposes of assessing a penalty if the bank supplied the incorrect account number?

Mr. EGGER: As I previously indicated, when we check with the banks (payers) and they document their attempt to obtain a correct or valid TIN (i.e., they have exercised due diligence), we will assess the penalty against the payee after notification and so forth. Of course if the payer has the correct number on the account and transcribed it incorrectly on the information returns, we would not assess the penalty on the payee.

INTEREST AND DIVIDEND WITHHOLDING

Senator ABDNOR: Much emphasis has been placed on individual reporting of interest and dividends, and the process IRS uses to ensure compliance. To what extent do businesses present a similar problem? What is being done to enforce compliance for businesses?

Mr. EGGER: We feel businesses do not present as great a problem as individuals. Businesses usually maintain a double-entry bookkeeping system which accounts for investments and related income and make estimated tax payments on their income, of which interest and dividends usually comprise only a small percentage. In large businesses, internal controls dictate that interest and dividends are properly reported.

PROBLEMS WITH TAXPAYER IDENTIFICATION NUMBERS

Senator ABDNOR: Many banks and financial institutions have recently requested individuals to supply their Social Security numbers on Form W-9 (Payer's Request for Taxpayer Identification Number). Has the lack of Social Security numbers, or incorrect numbers, been one of the primary obstacles preventing IRS from associating earnings to an individual?

Mr. EGGER: Yes. Between 1974 and 1981 (the latest year for which we have final data) the Service received 4.1 billion domestic information returns; 373 million were without valid identification numbers. Through our perfection process, we located valid name and number combinations for 38 million. The 335 million records without valid identification numbers after this perfection process could not be successfully matched against our Individual Master File for possible creation of an Underreporter or Non-Filer case.

REASONABLE CAUSE

Senator ABDNOR: Do you envision any administrative problems in trying to deal with reasonable cause that taxpayers may offer for failure to meet a tax obligation?

Mr. EGGER: We do not foresee any significant administrative problems, as we have administered provisions for "reasonable cause" explanations by taxpayers (in other tax matters) for many years.

TAX SHELTERS

Senator ABDNOR: In fiscal year 1982 House appropriation hearings, the Commissioner of the Internal Revenue Service testified that reducing the maximum rate from 70 percent to 50 percent would be a major factor in reducing the number of tax shelter cases that IRS has to worry about. Has the change in the maximum rate resulted in any significant decrease in the use of abusive tax shelters?

Mr. EGGER: It is reasonable to assume that the reduction in the maximum rate has resulted in fewer abusive tax shelters than we would have without the reduction. Despite this, our inventory of tax shelter cases continues to grow as the creativity of promoters has resulted in schemes that are intended to be attractive even to taxpayers in lower brackets than 50%. Our abusive tax shelter inventory increased by over 49,500 returns during fiscal year 1983. In addition, as of February 28, 1984, we were conducting 222 examinations of potentially abusive tax shelter promoters in conjunction with the IRC 6700 provisions enacted by The Tax Equity and Fiscal Responsibility Act of 1982.

Senator ABDNOR: If a significant decrease has occurred, have you adjusted the amount of resources devoted to abusive tax shelters accordingly?

Mr. EGGER: Since there has been no significant decrease, we expect the resources utilized in the tax shelter program to continue to be substantial.

SPECIAL COMPLIANCE PROBLEMS - TAX HAVENS

Senator ABDNOR: One of the highest priorities of IRS Examination Division's International Enforcement Program is the pursuit and examination of tax haven issues. In this regard, international agents, who are senior revenue agents with special training in international taxation, are to emphasize identifying and examining tax returns which show significant activity or unusual transactions involving tax haven countries. What initiatives have you undertaken to support the special emphasis placed on tax havens?

Mr. EGGER: The Service has undertaken the following initiatives:

1. Elevated tax haven priority to strengthen our enforcement effort, especially in the coverage of international issue returns outside the large case program (i.e., corporations with assets of $250 million or more).

2. Expanded our training programs to include tax haven modules for revenue agents and tax auditors. Instructors for these modules are international examiners. Also, a special in-depth tax haven course was given to all international examiners, and a 4-day international orientation was provided to top-level and mid-level management personnel.

3. Strengthened our classification program by requiring that all international returns be classified for examination potential by an experienced international examiner, and quality review be performed by an international manager who must, as part of the review, approve all tax haven returns not selected for examination.

4. Increased the number of revenue agents trained as international examination specialists by approximately 44% over the past 29 months to handle the anticipated additional workload because of the actions in 1-3 above. As of March 1984, authorized international examination specialist staffing was 341 as compared to 237 at September 1981.

5. Expanded our scope of tax haven understanding through agressive actions with our foreign treaty partners. Tax haven schemes have been a continuing topic in our exchange programs with France, Germany and the United Kingdom (Group-of-Four), and with Canada, Australia and Japan (Pacific Assoc. of Tax Administrators).

6. Encouraged districts to pursue local projects as a means to identify and combat tax haven evasion schemes. One major project is under way in Florida.

7. Developed better utilization of foreign information documents received from treaty partners.

8. Created a National Office Tax Avoidance Unit in FY 83 to provide centralized coordination for identified areas of tax avoidance or tax abuse.

9. Convened in FY 84 a joint task force of Examination and Criminal Investigation personnel to develop an identification system of unique audit techniques that can be effectively applied to taxpayers involved in tax haven avoidance schemes.

10. Expanded our Simultaneous Examination and Industrywide Exchange Programs by adding new treaty partners and intensifying our efforts to identify cases that may be examined under these programs. These programs allow the Service to penetrate intercompany transactions beyond our national boundaries, especially when the transaction is routed through a tax haven country.

11. Enhanced our management information systems to more effectively monitor our enforcement efforts in the tax haven area. Changes that involve the identification, classification, referral and acceptance of tax haven cases have been completed. Changes that will capture tax haven examination results and provide a tax haven data base are underway.

12. Disseminated a Tax Haven Information Book created from information provided by our Revenue Service Representatives (RSR's) located at our foreign posts. The book will be updated periodically and should assist examiners who encounter tax haven situations.

Senator ABDNOR: How successful have these initiatives been?

Mr. EGGER: As these initiatives are relatively new, we do not yet have enough data to measure their effectiveness in practice. I can tell you what we know so far:

1. In FY 83, 31% of concluded tax haven examinations involved taxpayers outside of the large case program. These examinations resulted in recommended income adjustments of $356 million ($43 million on individual returns), foreign tax credit reductions of $3 million, penalties of $30.5 million ($11 million against individuals), and other taxes of $26 million.

2. The new Tax Avoidance Unit in the National Office has undertaken the following actions to identify tax haven abuse.

(a) Use of Treasury Enforcement Communication System (TECS) to identify taxpayers transferring currency to tax haven countries.

(b) Coordination with Comptroller of the Currency to develop a system of tracing money entering or leaving the U.S. via wire transfers.

(c) Development (jointly with Criminal Investigation Division) of a computerized data base of information gathered from foreign tax and information returns.

(d) Closer coordination with other Federal agencies concerning business operations under their jurisdictions. For example, coordination with the Department of Agriculture on purchase and sale of farmland; with the Maritime Administration concerning the sale of ships; and with the Customs Service on travel declarations to tax haven countries.

Senator ABDNOR: What enhancements would help to make the initiatives more successful?

Mr. EGGER: We feel it is premature at this time to recommend any enhancements before we have had the opportunity to obtain sufficient feedback data and to assess or evaluate the results of these new actions.

Senator ABDNOR: As part of the Caribbean Basin Initiative legislation, Treasury is attempting to negotiate exchange of information agreements with Caribbean Basin countries. To date, Treasury has had little success in negotiating such agreements with the largest recognized tax havens such as the Bahamas, the Cayman Islands, and Panama. It is well known to Treasury, Justice, and IRS that significant amounts of money, particularly funds generated from drug trafficking, are being laundered through these tax havens. Given the lack of success in negotiating exchange of information agreements, what other actions can Treasury and IRS take to deal with the tax haven problem?

Mr. EGGER: I believe the actions I've described will eventually result in some success in dealing with tax haven abuse. We are always looking for additional means of dealing with the tax haven problems, but at this juncture I would like to assess the results of our current initiatives (when they are know) before recommending any further actions.

SPECIAL COMPLIANCE PROBLEMS - TAX PROTESTERS

Senator ABDNOR: The number of illegal tax protesters--persons who, according to IRS, advocate and/or use schemes to evade paying taxes -- has increased significantly in recent years. IRS has achieved some progress in detecting and deterring tax protesters. In addition, the Economic Recovery Tax Act of 1981 and the Tax Equity and Fiscal Responsibility Act of 1982 provided IRS with additional penalties to assess for filing false W-4 forms and for filing frivolous income tax returns such as those filed by tax protesters. What is IRS' current assessment of the tax protester situation?

Mr. EGGER: The movement is, in some instances, well organized and is successful in convincing otherwise honest and compliant taxpayers not to comply with the tax laws.

At the end of Fiscal Year 1979, 4,438 tax protester returns were under examination; this number grew to 11,258 at the end of Fiscal Year 1980, 16,620 at the end of Fiscal Year 1981, and 30,956 at the end of Fiscal Year 1982. As of September 30, 1983, there were 36,712 protester returns under examination.

We are continuously refining our identification and monitoring techniques for tax protesters, using both manual and computer techniques. We feel that although the protester movement has not stopped, its growth has slowed as a result of our efforts.

Senator ABDNOR: Has IRS conducted any studies of tax protesters in terms of what they cost the Treasury in lost tax revenues?

Mr. EGGER: While there have been no formal studies conducted of the protester population as a whole, we employ both computer and manual identification systems to identify and monitor tax protester activities.

During Fiscal Year 1983, we concluded the examination of 18,159 tax protester returns, yielding over $122 million in recommended tax and penalties.

As of December 31, 1983, we had 36,896 tax protester returns under examinaton. We project that these examinations will result in about $250 million in recommended tax and penalties.

Senator ABDNOR: To what extent has IRS used the penalties of the Economic Recovery Tax Act of 1981 and the Tax Equity and Fiscal Responsibility Act of 1982? What indication do you have that the penalties have been effective?

Mr. EGGER: Of the penalties provided by the Economic Recovery Tax Act of 1981 and the Tax Equity and Fiscal Responsibility Tax Act of 1982, the frivolous return penalty (IRC 6702) has been used most extensively. This is because the penalty may be asserted when frivolous positions are claimed on the face of the return. These frivolous returns are frequently unprocessable and subject to the immediate assessment of the frivolous return penalty. In Fiscal Year 1983, there were 4,996 frivolous return penalties asserted. In the first five months of Fiscal Year 1984, there were 4,959 frivolous return penalties asserted.

In addition to the frivolous return penalty, there are four other penalties which are available as a result of these tax acts:

a. IRC 6659, Valuation Overstatements;
b. IRC 6661, Substantial Understatement of Liability;
c. IRC 6700, Promoting Abusive Tax Shelters; and,
d. IRC 6701, Penalties for Aiding and Abetting Understatement of Tax Liability.

These penalties require examinations to develop the facts of the case to determine whether any penalty is appropriate. For this reason, not as many of these penalties have been assessed. In Fiscal Year 1983, there were about 20 of these penalties asserted. In the first three months of Fiscal Year 1984, we have asserted over 225 of these penalties.

The Tax Equity and Fiscal Responsibility Act also increased the penalty the courts may impose for those court cases which the taxpayer has instituted or maintained primarily for delay, or frivolous or groundless positions. This penalty, which was a maximum of $500, has been increased to $5,000. We feel that these penalties will have a significant deterrent effect on tax protester activities.

Senator ABDNOR: Are you confident that such penalties can successfully combat tax protesters or will additional measures be required?

Mr. EGGER: The penalties are having a positive compliance effect. The frivolous return penalty is especially effective since it is immediately assessable. We feel that fast action on our part takes away from the tax protesters' attempts to delay the assessment system.

While it is too soon to measure the effectiveness of the penalties, we feel we have been very successful in identifying and monitoring tax protester activities and asserting tax protester penalties. The courts are imposing the additional penalty (IRC 6673) more frequently for proceedings instituted or maintained to delay the assessment system.

We feel that as these penalties continue to be imposed, we will become more effective in deterring the tax protester movement.

GENERAL SERVICES ADMINISTRATION

STATEMENT OF RAY KLINE, ACTING ADMINISTRATOR

ACCOMPANIED BY:
RAYMOND A. FONTAINE, COMPTROLLER
WILLIAM B. EARLY, JR., DIRECTOR OF BUDGET
ALLIE B. LATIMER, GENERAL COUNSEL

INTRODUCTION OF ASSOCIATES

Senator ABDNOR. Our next witness will be Mr. Ray Kline, the Acting Administrator of the General Services Administration. We certainly welcome you and your group here today.

I would just like to note for the record, though, that we had a great appreciation for your predecessor, Mr. Carmen, who left his post just a week or so ago. We enjoyed working with him all that time, and I think he did an outstanding job during his tenure as Administrator.

I know we can count on you to do the same fine job, Mr. Kline. I will call on you to introduce your colleagues and proceed as you wish. We will make your statement and anyone else's statement a part of the record.

Mr. KLINE. Thank you, Mr. Chairman.

I am pleased to appear today to discuss the General Services Administration's fiscal year 1985 budget request and to highlight some of our major accomplishments and goals which, as you noted, are due to the efforts of Mr. Carmen.

With me at the table are Ray Fontaine, the Comptroller of GSA, and Mr. Early, the Director of Budget.

As an indicator of business volume, GSA's total obligations will approach $7.1 billion in fiscal year 1985, an increase of over 53 percent since fiscal year 1981. This increased delivery of goods and services reflects expanded use of GSA by our Federal customers.

Over the same period, the average employment of GSA will have decreased by over 15 percent, a reduction of almost 5,200 staff years. Coupled with organizational streamlining, reduction of occupied space and attention to administrative costs, this has resulted in a continuing improvement of the ratio of overhead to total operations.

In addition to these internal improvements, GSA has also assumed greater Government-wide leadership responsibilities for a number of initiatives designed to restrain the growth of administrative costs throughout the Federal sector.

GSA is administering the Government work space management reform directed under Executive Order 12411. Our goal here is an overall reduction in the Federal work space inventory, and a decrease in utilization rates to 135 square feet per employee. When fully implemented, this initiative should achieve approximately $1.8 billion in savings to the taxpayer.

It is estimated that Federal agencies can save 20 percent of the cost of common-use supplies if purchased through GSA's central procurement resources, and we are working to insure that agencies fully understand the opportunities available. GSA increased its supply business volume by $1 billion, or 39 percent, between 1981 and 1983, representing a cost savings of $200 million to customer agencies. We plan to continue and accelerate this expansion to provide even further economies.

Annual Government-wide savings of at least $150 million can be achieved through Federal travel management initiatives such as hotel/motel and contract carrier discount programs, use of travel management centers, and full implementation of the new Federal travel charge card/travelers' check programs. Initiatives are also underway to decrease costs associated with operation of the Federal motor vehicle fleet through centralization of fleets, regional maintenance control centers, increased commercial maintenance of vehicles, and other programs.

GSA is also working with Federal agencies to improve the management and cost effectiveness of telecommunications resources through the competitive procurement of equipment and circuits, consolidation and automation of switchboards, and other administrative improvements. Potential Government-wide cost avoidance from management and operation of the Federal telecommunications system approaches $200 million annually.

Steady progress is being made in accelerating the sale of surplus Federal real property, consistent with our goal of sound asset management. Cash receipts from such sales are projected to increase from $68 million in 1983 to approximately $216 million in 1985.

A number of other initiatives are contributing to better management and reduced costs, including improvements in Government-wide mail and records management, more efficient Federal advisory committee management, and increased use of reconditioned excess personal property in lieu of new purchases. GSA has also been instrumental in the establishment of a consolidated Government-wide Federal acquisition regulation, issued September 19, 1983, which will eliminate many duplicative regulations issued by individual agencies.

Within this overall perspective, I would now like to summarize this agency's 1985 budget request.

As noted earlier, our total 1985 obligations will be about $7.1 billion. Most of this, however, is financed in one form or another by customer funding. The amount of new appropriations annually required by GSA for management and administrative costs is a small—and decreasing—portion of total operations, representing only 7.1 percent of total obligations in 1985, compared with 9.6 percent in 1981.

Specifically, we are requesting $499.8 million in direct 1985 appropriations for programs under the jurisdiction of this subcommittee. This is

$22.4 million, about 4.7 percent, over 1984 levels, and is a net figure taking into account both increases and decreases.

The request first accommodates $24.2 million in nonprogram-related cost growth, such as the effect of 1984 pay raises, purchase price inflation, and increases in the fair market rental value of space.

Two new missions transferred to GSA from OMB, including support for the catalog of Federal domestic assistance and the Federal Acquisition Institute, will require an additional $3.1 million. The budget includes $3 million in this election year for possible expenses of a Presidential transition.

Selected increases are planned for basic ongoing efforts, such as an additional $1.1 million under National Archives and Records Service programs for increased preservation of the Government's permanently valuable records. Inspector General funding will grow by $1.9 million to increase contract audit coverage and provide for recently-mandated requirements and agency initiatives. These increases have been offset by over $10.8 million in reductions under other programs.

Aside from appropriations, we are also requesting new obligational authority under the Federal buildings fund and national defense stockpile transaction fund. Although these programs are financed from standard level user charges—SLUC—and sales of excess stockpile commodities, respectively, they are subject to annually-enacted limitations on the use of revenue.

New obligational authority of $2,227.8 million is proposed for the Federal buildings fund. This authority will provide for the acquisition of prime Government-owned space in target locations where lease costs are highest; for a modest 1985 construction program; for repairs and alterations of Government buildings which are designed to provide an appropriate level of safety and maintain the value of our capital assets; for the day-to-day operation of these same buildings; for the rental of commercial space where necessary to meet customer agency needs; and for other support activities such as design and construction services, program direction, and purchase contract payments.

This will allow us to adjust to the effects of inflation and 1984 pay increases, to continue an aggressive repairs and alterations program, and to proceed with necessary automation enhancements.

A one-time increase of $24.9 million is also included to establish accrual accounting procedures for purchase contract payments, allowing us to execute this account in a more businesslike manner.

These and other smaller increases will be partially offset by $48.2 million in anticipated savings generated by a net reduction in our leased space inventory and a very modest new construction program.

This 1985 program is based upon a projected total revenue of $2,230.2 million in 1985, which assumes that standard level user charge—SLUC—billings will be set at fully-equivalent 1984 commercial rates. This is a change from the actual 1984 rates, which were held at a maximum of 14 percent above 1982 and 1983 rates. I would like to mention here that GSA is developing a replacement for the SLUC system which we call commercially-based rent—CBR—and which is scheduled for full implementation after 1985. The CBR system will employ the use of private sector ratesetting practices, strenghten customer incentives for efficient space utilization, and stabilize our income levels. Under the CBR concept, GSA proposes to reflect the rates set by local markets, fully disclose to customer agencies our ratesetting mechanisms, come to agreement with our customers on 5-year base rental rates, and pass on increases and decreases in operating costs to our customers. We believe that this is a fair and equitable concept acceptable to customer agencies and the Congress.

Last, 1985 new obligational authority of $120 million is requested under the national defense stockpile transaction fund. This level is the same as in 1984, and will permit continued procurement of strategic and critical materials for the national defense stockpile. Receipts from the sale of commodities excess to stockpile needs will be adequate to support requested obligational authority. However, new disposal authorization will be required.

PREPARED STATEMENT

Mr. Chairman, this concludes my statement. I would be pleased to discuss any aspects of our programs that are of interest to the subcommittee.

[The statement follows:]

STATEMENT OF RAY KLINE

I am pleased to appear today to discuss the General Services Administration's 1985 budget request, and to highlight some of our major accomplishments and goals.

As an indicator of "business volume", GSA's total obligations will approach $7.1 billion in fiscal year 1985, an increase of over 53 percent since 1981. This increased delivery of goods and services reflects expanded use of GSA by our Federal customers. Over the same period, GSA average employment will have decreased by over 15 percent, a reduction of almost 5,200 staff years. Coupled with organizational streamlining, reduction in occupied space, and attention to administrative costs, this has also resulted in a continually improving ratio of "overhead" to total operations.

In addition to these internal improvements, GSA has also assumed greater Government-wide leadership responsibilities through a number of initiatives designed to restrain the growth of administrative costs throughout the Federal sector.

GSA is administering the Government Work Space Management Reform directed under Executive Order 12411. Our goal here is an overall reduction in the Federal work space inventory, and a decrease in utilization rates to 135 square feet per employee. When fully implemented, this initiative should achieve approximately $1.8 billion in savings to the taxpayer.

It is estimated that Federal agencies can save 20 percent of the cost of common-use supplies if purchased through GSA central procurement sources, and we are working to ensure that agencies fully understand the opportunities available. GSA increased its supply business volume by $1 billion, 39 percent, between 1981 and 1983, representing a cost savings of $200 million to customer agencies. We plan to continue and accelerate this expansion to provide even further economies.

Annual Government-wide savings of at least $150 million can be achieved through Federal travel management initiatives, such as hotel/motel and contract carrier discount programs, use of Travel Management Centers, and full implementation of the new Federal travel Charge Card/Travelers' Check programs. Initiatives are also underway to decrease costs associated with operation of the Federal motor vehicle fleet through centralization of fleets, regional Maintenance Control Centers, increased commercial maintenance of vehicles, and other programs.

GSA is also working with Federal agencies to improve the management and cost effectiveness of telecommunications resources through the competitive procurement of equipment and circuits, consolidation and automation of switchboards, and other administrative improvements. Potential Government-wide cost avoidance from management and operation of the Federal Telecommunications System approaches $200 million annually.

Steady progress is being made in accelerating the sale of surplus Federal real property, consistent with our goal of sound asset management. Cash receipts from such sales are projected to increase from $68 million in 1983 to approximately $216 million in 1985.

A number of other initiatives are contributing to better management and reduced costs, including improvements in Government-wide mail and records management, more efficient Federal Advisory Committee management, and increased use of reconditioned excess personal property in lieu of new purchases. GSA has also been instrumental in the establishment of a consolidated Government-wide Federal Acquisition Regulation, issued September 19, 1983, which will eliminate many duplicative regulations issued by individual agencies.

Within this overall perspective, I would now like to summarize this agency's 1985 budget request.

As noted earlier, our total 1985 obligations will be about $7.1 billion. Most of this, however, is financed in one form or another by customer funding. The amount of new appropriations annually required by GSA for management and administrative costs is a small - and decreasing - portion of total operations, representing only 7.1 percent of total obligations in 1985, compared with 9.6 percent in 1981.

Specifically, we are requesting $499.8 million in direct 1985 appropriations for programs under the jurisdiction of this subcommittee. This is $22.4 million, about 4.7 percent, over 1984 levels, and is a net figure taking into account both increases and decreases. The request first accommodates $24.2 million in non-program-related cost growth, such as the effect of 1984 pay raises, purchase price inflation, and increases in the fair market rental value of space. Two new missions transferred to GSA from OMB, including support for the Catalog of Federal Domestic Assistance and the Federal Acquisition Institute, will require an additional $3.1 million. The budget includes $3 million in this election year for possible expenses of a Presidential transition. Selected increases are planned for basic ongoing effort, such as an additional $1.1 million under National Archives and Records Service programs for increased preservation of the Government's permanently valuable records. Inspector General funding will grow by $1.9 million to increase contract audit coverage and provide for recently mandated requirements and agency initiatives. These increases have been offset by over $10.8 million in reductions under other programs.

Aside from appropriations, we are also requesting new obligational authority under the Federal Buildings Fund and National Defense Stockpile Transaction Fund. Although these programs are financed from Standard Level User Charges (SLUC) and sales of excess stockpile commodities, respectively, they are subject to annually enacted limitations on the use of revenue.

New obligational authority of $2,227.8 million is proposed for the Federal Buildings Fund. This authority will provide for the acquisition of prime Government-owned space in target locations where lease costs are highest; for a modest 1985 construction program; for repairs and alterations of Government buildings which are designed to provide an appropriate level of safety and maintain the value of our capital assets; for the day-to-day operation of these same buildings; for the rental of commercial space where necessary to meet customer agency needs; and for other support activities such as design and construction services, program direction, and purchase contract payments. This will allow us to adjust to the effects of inflation and 1984 pay increases, to continue an aggressive repairs and alterations program, and to proceed with necessary automation enhancements. A one-time increase of $24.9 million is also included to establish accrual accounting procedures for purchase contract payments, allowing us to execute this account in a more business-like manner. These and other smaller increases will be partially offset by $48.2 million in anticipated savings generated by a net reduction in our leased space inventory and a very modest new construction program.

This 1985 program is based upon a projected total revenue of $2,230.2 million in 1985, which assumes that SLUC billings will be set at fully-equivalent 1984 commercial rates. This is a change from the actual 1984 rates, which were held at a maximum of 14 percent above 1982 and 1983 rates. I would like to mention here that GSA is developing a replacement for the SLUC system which we call Commercially-Based Rent (CBR), and which is scheduled for full implementation after 1985. The CBR system will employ the use of private sector rate-setting practices, strengthen customer incentives for efficient space utilization, and stabilize our income levels. Under the CBR concept, GSA proposes to reflect the rates set by local markets, fully disclose to customer agencies our ratesetting mechanisms, come to agreement with our customers on five-year base rental rates, and pass on increases and decreases in operating costs to our customers. We believe that this is a fair and equitable concept acceptable to customer agencies and the Congress.

Lastly, 1985 new obligational authority of $120 million is requested under the National Defense Stockpile Transaction Fund. This level is the same as in 1984, and will permit continued procurement of strategic and critical materials for the National Defense Stockpile. Receipts from the sale of commodities excess to stockpile needs will be adequate to support requested obligational authority. However, new disposal authorization will be required.

Mr. Chairman, this concludes my statement. I would be pleased to discuss any aspects of our programs that are of interest to the subcommittee.

SUBMITTING QUESTIONS

Senator ABDNOR. Thank you.

Mr. KLINE. To assist me are the Service Commissioners and the Archivist of the United States.

Senator ABDNOR. Fine. Thank you for your fine statement, Mr. Kline. We do have a number of questions. As a matter of fact, some we will ask you, and some we will submit in writing, as the hour is getting late. Senator DeConcini will have questions he will want to submit in writing, and I think we have questions from several members of the Appropriations Committee, other than from the subcommittee.

The fiscal year 1985 request reflects the change in the method of funding site acquisitions and construction costs in the construction and acquisition account.

Am I correct that design and supervision costs will be funded by the construction service activity and, if so, could you elaborate a little on that?

Mr. KLINE. Yes, sir. We have established a new item in the PBS Federal buildings fund budget for design and construction services. The reason we have done this is to clearly identify in a direct-funded account, the costs that are going into design and construction related services; that includes design, design support, and related management activities.

Senator ABDNOR. Do you think this will make quite an improvement?

Mr. KLINE. Yes, sir, it helps solve a problem. Some years ago, we used another vehicle in the construction services area, called the construction services fund, and based upon analyses done by our Inspector General, the traceability and accountability of the funds that were going into some construction projects left something to be desired.

To remedy this, we have had a system in place to track the costs for the last 2 years but the overhead costs for running it were too high. We believe that budgeting for this activity in a direct funded manner will yield greater economies from the taxpayers' standpoint, and give greater clarity and flexibility to the management of the program.

Senator ABDNOR. Well, that is fine. I hope it works out the way it is intended. You said you are cutting back on employee space to 135 square feet. What was it before?

Mr. KLINE. Well, the average today across the Government is about 164 square feet. That is down a bit from the national average, which was about 168 square feet a few years before. That may sound like a minor adjustment until one realizes you are talking 2 million people. It adds up to very large numbers.

Senator ABDNOR. What does this mean for projections for the future? I mean, if agencies are cooperating, and I suppose they will, this will be quite a reduction, as you just said.

Mr. KLINE. Yes, sir. If the total initiative set out by Executive Order 12411 is met, this means in excess of a $1 billion reduction. It would come to about—let me wait for the buzzer.

Senator ABDNOR. Yes.

Mr. KLINE. It would come to about $1.8 billion if all of the objectives are realized.

That effort is now Government-wide, and that needs to be emphasized. We are dealing with 73 different departments and agencies and their plans are now coming in. Some of the departments and agencies have already committed to what they are going to be doing by the end of this year, and we are seeing something like a $170 million reduction already. There is a long way to go, but we are already seeing some tangible results.

Senator ABDNOR. That is great. I would have to imagine some won't be quite as cooperative as others.

Mr. KLINE. That is correct, sir.

Senator ABDNOR. There is a lot of difference in space. If you are talking about a difference of 30 square feet per employee, that would cut down territories, but I am sure it can be taken care of.

ALLOWANCES AND OFFICE STAFF FOR FORMER PRESIDENTS

There is always a discussion about the allowances and the office staff for former Presidents' accounts. Could you elaborate a little about how this appropriation is used. Does each President present a budget, or what?

Mr. KLINE. I would like to turn this over to Mr. Fontaine, the Comptroller, who handles this directly.

Mr. **Fontaine.** Mr. Chairman, the basic entitlements are, of course, their pensions, which is set at whatever the salary rate of the Cabinet officer is. They are allowed $96,000 for office staff, suitable office space adequately furnished wherever they may choose, along with postage, telephone, supplies, and such things.

Our contact is with the top administrative person for the former President's staff to get input for their budget but the fiscal year 1985 request is basically the same as fiscal year 1984. There are no big peaks and valleys in that program; it is basically mandated by law.

Senator **Abdnor.** I suppose you hear about it. Some of it is lack of understanding, and others think it is overgenerous, but we often receive comments on this and letters.

Mr. **Fontaine.** We get a lot of mail, also.

Senator **Abdnor.** I am sure you do. You write back that any time Congress wants to change the law, they can do so?

Mr. **Fontaine.** I put the ball back in your court. [Laughter.]

GRANT PROGRAM

Senator **Abdnor.** Well, no funds have been requested for the Archives grant program, and I am sure you know, Mr. Kline, that is a pretty popular program each time with Congress. It always gets back in there. Congress has traditionally funded this program at about $4 million.

Can you tell us what impact the direction to spend that amount in fiscal year 1985 would have if the funds in the account were not increased above the requested level of $4 million, if it gets back in there?

Mr. **Kline.** Yes, sir. Since these numbers were put together in the budget process, the Congress has passed legislation, reauthorizing the grants program. We are now taking the issue up with OMB concerning how to accommodate the situation, and we expect to be coming forward with a position in the near future.

Perhaps the Archivist would like to talk to this.

Senator **Abdnor.** State your name for the record.

Mr. **Warner.** Robert Warner, Archivist of the United States. You are quite right, this is a very popular program, and it has had great effect in the States in preserving historical records, and also in publishing the documentary heritage of the country.

You are also quite correct that the Congress has always seen fit to fund this program because it recognizes its value. As the Acting Administrator has stated, when the GSA budget package was received, the National Historical Publications and Records Commission—NHPRC—had not been reauthorized. It has now been reauthorized by the Congress, and we will be going to OMB to discuss a mechanism for carrying out that program.

Senator **Abdnor.** Good. I would like to get into this, when it comes in. With the constraints I have to live with my budget and the budget figures, we have to do a lot of juggling even to find a few million dollars and it has to be recognized before we get into it so the money is there.

Mr. WARNER. I surely understand that.

Senator ABDNOR. I just happen to have this particular section of the budget which has problems like this because we don't carry on big programs where you can rob money out easily. When you take money out of another area, we are talking positions and everything else.

So we just wish everybody would recognize the popularity and the needs of the program. It would make it easier.

Mr. WARNER. I couldn't agree more.

Mr. FONTAINE. I think NARS would have a hard problem absorbing $4 million or $3 million out of their current budget, however.

Senator ABDNOR. You think what?

Mr. FONTAINE. I don't think the Archives could come up with that kind of money without impacting other important programs. There would have to be relief of some sort down the road.

Mr. KLINE. That is why our discussion with the Office of Management and Budget is rather important. We don't look at that as an attractive alternative at all, just absorbing it within the amount that we propose for appropriation to the National Archives.

Senator ABDNOR. Thank you. We are glad to have those comments.

VACANT SPACE

The Federal Government has over 17 million square feet of space, owned and leased, that is going to become vacant in fiscal year 1985. Can anything be done to realize any income from the space?

Mr. KLINE. The 17 million square feet?

Senator ABDNOR. Yes; 17 million square feet.

Mr. KLINE. That the agencies are leaving?

Senator ABDNOR. Apparently it is going to become vacant.

Mr. KLINE. That is correct, sir. It is a net figure. The total space being vacated is 25 million square feet, but some of the departments have new requirements of about 8 million square feet, so that comes out to about 17. So the totality of our problem is, the way you phrase it, 17 million square feet.

We are trying to move swiftly in disposing of the property for which we don't have future requirements either for ourselves or for any other agencies. In doing this, we try to get rid of it. If there are circumstances where some of the space that we don't need is in buildings that are also occupied by other Government tenants, we look at outleasing to see if there are attractive arrangements we can make with people outside the Government to lease some of this space.

So we have an active outleasing program as well.

Senator ABDNOR. You can do that, can't you?

Mr. KLINE. Yes, sir, we can.

Senator ABDNOR. We ought to try to realize some income out of it, some way, for its use.

Mr. KLINE. You know, along that line, sir, after we made this presentation to President Reagan, he turned to Mr. Carmen and said, "Jerry, let me tell you, you kick this initiative off not too far down the road.

They're going to raise the question of 'What am I going to do with all this vacant space?'" He said, "I did the same thing out in California, and I wound up with an empty building in Sacramento. It was a problem until we got rid of it." [Laughter.]

PENSION BUILDING

Senator ABDNOR. Congress approved funding for work at the Pension Building. How is that work progressing? Are things up to date?

Mr. KLINE. Yes, sir. The work in the Pension Building is progressing nicely. We have it phased. There is a certain amount of work we want to get done before the inauguration balls that are going to be taking place. That is always one of the favorite locations in town.

Senator ABDNOR. Are you going to be ready for that?

Mr. KLINE. Yes, sir, that phase we expect to have completed. There is a large amount of work which will be in a subsequent phase which should be undertaken at that time. The overall plan is on schedule.

BLAIR HOUSE

Senator ABDNOR. Fine. I would also like to ask you, how is the Blair House coming along? What work is contemplated? I went over there once and spent considerable time walking through it, and I just wondered where are we going from that time?

Mr. KLINE. We were aware, sir, that you did take a look at it. We asked our Commissioner of the Public Buildings Service to give you a brief report on it.

Mr. Mitchell?

Mr. MITCHELL. As you know, Mr. Chairman, the Blair House was closed when hazardous conditions in the heating and domestic hot water system were discovered.

Senator ABDNOR. Right.

Mr. MITCHELL. We assumed control of the facility from the State Department. A limited appropriation of $2 million was provided in fiscal year 1983 for initial design work, and the architectural and engineering review has developed a very good plan which calls for modification to major systems; structural upgrading that must be accomplished; repairs to electrical, heating, plumbing, and air-conditioning systems; roof repairs; installation of fire and life-safety systems; and expanded construction of a new west wing.

The 1985 budget includes $7 million as a prospectus item to handle that work.

Senator ABDNOR. You mean everything you are talking about is just that wing?

Mr. MITCHELL. No; this would be the entire complex, which consists of about four buildings.

Senator ABDNOR. That is about where we were when we started this plan, is it not?

Mr. MITCHELL. I believe that is correct. The total prospectus limitation on the Blair House is $9 million

Senator ABDNOR. Could I see some of that before we get through, or too far along?

Mr. MITCHELL. Yes, sir.

Senator ABDNOR. I would like to see how we made any changes in it at all. I just thought it seemed a little high at the time. Maybe I apply South Dakota figures. I don't know.

Mr. KLINE. We would be happy to provide that.

Senator ABDNOR. OK. Thank you.

STOCKPILE ACTIVITIES

There are currently 115 stockpile activities. What is the general disposition of the physical plants?

Mr. KLINE. We have Carroll Jones here, our Commissioner of the Federal Property Resources Service.

Senator ABDNOR. Did we get his name?

Mr. KLINE. Perhaps Mr. Jones will come up and talk about that issue.

Senator ABDNOR. All right. Mr. Jones.

Mr. KLINE. Carroll Jones, Commissioner of Federal Property Resources Service.

Mr. JONES. Thank you, Mr. Chairman.

At the present time, the stockpile is located at approximately 114—I say approximately because we close down small locations from time to time—sites around the country. These sites include such diverse facilities as the bullion depository at West Point all the way to a pile of manganese out in Nevada; from manned depots to leased locations on Army facilities.

Senator ABDNOR. Are you making repairs and alterations in these places now?

Mr. JONES. We took over 12 of the manned facilities on a delegation of authority from the Public Buildings Service, and we are making necessary repairs and alterations to these and other physical facilities on an incremental basis. We expect to achieve approximately 7 million dollars' worth of work over the next 3 years.

Senator ABDNOR. That is going to be a continuing thing?

Mr. JONES. Yes, sir. We have also computerized a preventive maintenance schedule so we are doing work as it arises, and not when we discover that something has gone awry.

Senator ABDNOR. So it is going to be a kind of continuing thing in our budget from now on in?

Mr. JONES. Yes, sir.

Senator ABDNOR. Now, an effort has been made in recent years to upgrade the stockpile by adding materials necessary and selling materials no longer deemed critical. How are these efforts proceeding? Are you making any headway on this?

Mr. JONES. Well, we have, over the past 2½ years, purchased commodities in the neighborhood of $230 million. These are priority 1 commodities, largely, as determined by the annual materiels plan. We have purchased a substantial amount of bauxite, in excess of 3 million tons.

We have purchased thorium metal, tantalum. We have had two large cobalt purchases. We have purchased titanium, as well as rubber and quinidine and some other materials.

The sales, of course, are tied to market conditions. Approximately 2 years ago, there was a manipulation in the tin market, and we sold nearly 8,000 tons of tin in the space of 7 or 8 weeks. At current market conditions, I see that we will be limited to some place in the neighborhood of 2,000 to 3,000 tons.

Unfortunately, we have in excess of 137 million ounces of silver in the stockpile, but at the present moment we have no authorization to dispose of it.

Senator ABDNOR. How did you get that?

Mr. JONES. The silver was initially transferred over to the stockpile in 1967 because the Mint discontinued minting silver coins. GSA received some 165 million ounces from the Mint. That number was reduced to the 137.5 million we have today by transferring 25.5 million ounces of silver back to the Mint in 1970 in order to mint the Eisenhower silver dollar and by the selling of 2 million ounces in 1982.

Senator ABDNOR. Do you have a determination of what most of these items that you decide to sell—is that left up to you?

Mr. JONES. These items are declared to be in excess of stockpile goals, and the goals are addressed by FEMA, in the annual materiels plan.

Mr. KLINE. The final approval, Mr. Chairman, must come from Congress.

Senator ABDNOR. Do we have to give you final permission?

Mr. JONES. Yes, sir. We have no permission at the moment to dispose of any of the silver.

WHISTLE BLOWERS

Senator ABDNOR. I don't like the term, but what impact do you think whistle blowers are having on Government? [Laughter.]

Mr. KLINE. That is a change from the stockpile.

It is a rather broad question. From my own experience, I think that there are things that are brought to the attention of management through those means. In our own agency, we employ hot lines directly to the Inspector General. This has yielded information that management has found of value in becoming aware of problems and putting the requisite management attention on them. So there have been returns——

Senator ABDNOR. We need more of this if we can find ways of saving money and learn of activities going on that shouldn't be, and that you don't condone. I just wondered if we are making it more accessible, and you say you are, to those who do have information——

Mr. KLINE. Yes, sir, we certainly do encourage people to come forward when they have things that we ought to know about.

COMMERCIALLY-BASED RENT

Senator ABDNOR. You have a new term coming up for SLUC. What are you going to call it?

Mr. KLINE. The term we have in mind is commercially-based rent. First of all, SLUC just sounds lousy.

Senator ABDNOR. I don't like it, either. I couldn't figure it out.

Mr. KLINE. You can imagine how people use it when they use it as a verb.

What we have done, sir, is to go out and assess how the private sector is approaching this entire subject. We completed that survey, and we have taken from it the best features that we could find to be applied in a Government-type setting, and these features added together are now called the commercially-based rent feature.

If I could just say a few words about it, it does involve an agreement between the customer agencies and ourselves, generally running to something like 5 years, where there is a baseline understanding on the rent they are going to pay.

A second feature is a passthrough of the annual operating costs that are involved, and a feature, if needed, which is tied into the Consumer Price Index.

We found that one of the problems is that we were a little remiss in the customer relations aspect of staying in touch with the customer agencies as to what the system is, what their increased costs may be, and sitting down at the table with them and working these things through.

Having come up with modifications to the system, I would underline the fact that we think that type of feature should be retained in the Federal Government. It is a disciplining mechanism which forces people to be aware of the cost of the space when they want to expand, or move, or make any kind of substantial change.

Senator ABDNOR. I think I agree with you that it is a big item, and it is certainly one that, when they have to deal with it, everyone realizes it.

What effect does the 14-percent cap placed on the fiscal year 1984 have on the Federal buildings fund?

Mr. KLINE. Well, it put something of a damper——

Senator ABDNOR. That buzzer means a recess, so we won't be bothered for awhile.

Mr. KLINE. The ceiling imposed over the past several years comes up to about a $401 million loss of revenue. This does put constraints on what would be available for construction and some of our major repairs and alterations type of activities, and limits what we can do in the immediate future.

It is of special concern if we want to continue getting out of leased space and going to Government-owned, in terms of our flexibility for doing that.

HANDLING OF 7-PERCENT CAP

Senator ABDNOR. What is the problem, what is the 7-percent cap that you have on the State, Commerce, and Justice bill? How are you handling that?

Mr. KLINE. This is Mr. Early, Director of Budget.

Senator ABDNOR. How are you handling the 7-percent cap on the State, Commerce, and Justice bill that we gave you?

Mr. EARLY. We are sending the same bills to all agencies with respect to the 14-percent increase. We have a chargeback procedure where the agencies that are under the State, Justice, Commerce bill would send a credit application in for that 7 percent.

That is the easiest way we can deal with it, because we do not know the source of the funding of each location that the agencies occupy. That was a cost to the Federal buildings fund in the neighborhood of $25 million. It has not curtailed the Federal buildings fund programs during fiscal year 1984.

FISCAL YEAR 1985 POLICY

Senator ABDNOR. What does this do to the 1985 policy, with the new term and all? Have you presented it in this budget here?

Mr. KLINE. Sir, in 1985, what we would like to see are the 1984 commercially equivalent rates.

Mr. EARLY. The rates that we are charging for 1985 are the rates that we desired to charge in 1984. Based upon those commercially based appraisals, they do not include any increase from the amount that would have been anticipated in 1985. It is a phase-in back to the commercial equivalent reflecting the congressional intent of reducing that increase, and so we are not asking for all of that back in the same year. We are phasing the increase in over a 2-year period.

Senator ABDNOR. This has been worked out. You know, we requested that an effort be made by the authorizing committees and the GSA to come up with a workable plan with regard to SLUC. Has any progress taken place or has that been ignored?

Mr. EARLY. We have discussed the Federal buildings fund with both the authorizing committees. They have not brought up a new SLUC concept with us at any of those meetings. Within the agency we discussed alternatives, and the agency felt strongly that the best approach was to have the customers pay for the value of their space, so they are aware of the cost.

We do recognize that we have had some problems in dealing with our customers and making them aware of how the process works but we feel that it is equitable. In some cases we did feel that possibly it was a bit onerous; so, as Mr. Kline has indicated, the new concept is to sit down and deal with the customers, let them see the appraisals, let them understand the way the pricing is done, and at the same time negotiate with them what the fair market value is over a 5-year period, rather than on an annual basis, recognizing the stability of Government in those locations.

Mr. KLINE. Sir, you asked about where this thing is in the process. We have had initial discussion with the OMB, and we are still working on the plan with them. As Mr. Early has said, we have been up to visit the Public Works Committees, in both Houses, several times, to go over our ideas with them.

The overall approach is still evolving here. If it passes muster in all of these camps, and we think it is a good plan, this will become effective in fiscal year 1987.

We are allowing time to make this concept fully understood, not only with OMB and the committees, but with the customer agencies as well, so the plan will be fully coordinated.

Senator ABDNOR. Thank you. I think you are making fine progress on something that certainly has needed reviewing and change, and I am pleased to see that things are going as well as they are. I just want to commend you and your people, and also your predecessor, Mr. Carmen, for a job well done, and for your fine statement here today.

PREPARED STATEMENT

I want to thank all the witnesses who appeared here on behalf of their agencies before our subcommittee, and all the statements will be made a part of the record.

We have received a statement from Bernard Maguire, Associate Director for National Preparedness Programs, Federal Emergency Management Agency regarding national defense stockpiles which will be made a part of the record.

[The statement follows:]

STATEMENT OF BERNARD A. MAGUIRE, ASSOCIATE DIRECTOR FOR NATIONAL PREPAREDNESS PROGRAMS, FEDERAL EMERGENCY MANAGEMENT AGENCY

The Federal Emergency Management Agency (FEMA) is responsible under section 3 of the Strategic and Critical Materials Stock Piling Act for determining which materials are strategic and critical and the quantities, qualities, and forms which are required for a wartime emergency. In this capacity, FEMA supports the fiscal year 1985 budget request of the General Services Administration (GSA) relating to the operating expenses for the national defense stockpile. These expenses are needed for conducting the property management and acquisition/disposal activities in maintaining and restructuring the stockpile. FEMA also supports the request presented in the GSA budget for authorizations totaling $120 million from the national defense stockpile transaction fund established by section 9 of the Stock Piling Act for the acquisition of stockpile materials in accordance with the annual materials plan (AMP) for fiscal year 1985, as transmitted to the House and Senate Committees on Armed Services by the Director of FEMA under date of February 2, 1984.

The authorizations from the transaction fund are predicated upon receiving legislative authority to dispose of silver, for which a bill is under development. If these or other sales do not materialize, there will be insufficient resources in the transaction fund to purchase stockpile materials at the level of $120 million for fiscal year 1985.

BIOGRAPHY OF BERNARD A. MAGUIRE

The President appointed Bernard Maguire as the Associate Director, National Preparedness Programs for the Federal Emergency Management Agency (FEMA). His appointment was confirmed by the Senate on March 17, 1983.

Mr. Maguire is responsible for managing the role of the Federal Government in national preparedness. He has direct responsibility in FEMA for the Offices of Civil Preparedness, Mobilization Preparedness, Resources Preparedness, Research and the Science Advisor.

Prior to his current assignment, Mr. Maguire was president and chief executive officer of VPA Corp. of Vienna, Va., a management consulting firm specializing in policy development and executive decision analysis for the energy industry and related firms. He had previously served in management positions for two other consulting projects in diverse settings. Mr. Maguire has developed practical applications of state-of-the-art information management systems, planned safety review processes in industry, analyzed commercial applications of advanced technology, and installed systems for office automation.

Mr. Maguire, a native of Philadelphia, Pa., is a 1964 graduate of the U.S. Naval Academy. He also earned an MBA degree from the University of Pittsburgh Graduate School of Business in 1973.

Following graduation from the Naval Academy, he attended a variety of submarine nuclear power training and orientation programs and then served as supply officer and electrical officer aboard a diesel-electric submarine. He was selected for polaris weapons school and, following that training, served as assistant weapons officer and weapons officer aboard the U.S.S. *Sam Rayburn* (SSBN-635). During his tour as weapons officer, the *Rayburn* was the highest graded east coast submarine for nuclear weapons proficiency.

After his naval service, Mr. Maguire joined Westinghouse Electric Corp. in 1969, progressing from project engineer for nuclear energy systems to international project manager for generation systems. At Westinghouse, he managed major powerplant projects in Central and South America, directing field engineering, design, construction, and testing in remote locations. He assumed responsibility for handling emergency repair projects in Brazil, Ecuador, orea, and the Dominican Republic. He was also project manager for the Comanche Peak Steam Electric Station in the Dallas/Fort Worth area and the south Texas project near Houston, Tex.

Mr. Maguire lives with his wife and four children in Vienna, Va.

ADDITIONAL COMMITTEE QUESTIONS

Senator ABDNOR. We have, as I said, other questions, and we are going to submit those to you in writing, and with that we will just say thank you for appearing here today.

[The following questions were not asked at the hearing but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY THE SUBCOMMITTEE

CONTRACTING OUT PROVISIONS IN A-76

Question: Through the years there has been considerable discussion about contracting out provisions outlined in A-76. Congress has gotten involved and enacted prohibitions in certain areas. Could you briefly outline where GSA is today with regard to contracting-out services?

Answer: GSA has been implementing the Circular since 1982. An inventory of commercial activities has been established and the agency is systematically reviewing them to determine whether these activities can be delivered more economically and efficiently by Federal employees or by contractor. As a result of these reviews some activities are remaining in-house to be performed by Federal employees and others are being converted to contract performance. A copy of the most current inventory and review schedule is attached for your information. It runs the gamut of GSA activities from custodial and building maintenance to motor pools, warehouses, and computer centers.

During most of FY 1983, GSA was prohibited by the "Edgar Amendment" to its continuing resolution from obligating or expending funds for contracts for services performed by GSA personnel employed as custodians, messengers, elevator operators, or guards. The Amendment's greatest impact was on our custodial program. When the Amendment was passed we were actively reviewing our custodial program and were realizing large cost savings. The results were overwhelmingly in favor of contracting with each activity showing cost savings of 45-60% of in-house costs. This would have translated into an annual savings of almost $40 million once all of the custodial reviews were completed.

Despite this prohibition, GSA saved approximately $7.2 million annually and eliminated over 700 positions. This included approximately $4 millions of savings on custodial activities whose contracts were awarded prior to the passage of the Edgar Amendment; $1.9 million as a result of converting the Franconia warehouse to contract; and $1.3 million on various building maintenance activities.

In FY 1984, GSA again has a prohibition in its continuing resolution, however, it is slightly less restrictive than the Edgar Amendment as it allows GSA to convert activities in the four job categories to contracts with sheltered workshops. We are currently negotiating with the sheltered workshops to identify the activities in which they have an interest. In addition to the activities identified by this process, GSA will be reviewing a variety of other types of activities. For example, reviews of a number of our motor pools, warehouses, records centers, and building maintenance activities will be started in FY 1984.

PUBLIC BUILDINGS SERVICE

Question: The Committee is most interested in the success of the opportunity purchase program. We feel very strongly that the program is going to prove to be a success. For the record, would you provide information to previous acquisitions made through this program?

Answer: The General Services Administration has completed one acquisition under the opportunity purchase program. The building purchased is a commercial office building located at 555 Griffin Square, Dallas, Texas. The purchase was completed on February 16, 1983, at a price of $7.2 million. The building, constructed in 1972, is in excellent condition and provides about 160,000 occupiable square feet of space of which approximately 84 percent is occupied by Federal agencies, with the balance leased to private business tenants.

We are currently studying several other opportunities, and are hopeful of negotiating acceptable offers that will permit us to satisfy tenant agencies' housing needs with Government-owned space.

Question: For the record could you provide the Committee a listing of how funds appropriated in the Jobs Bill (P.L. 98-8) have been allocated previously and how they will be allocated in FY 1984?

Answer: The following listing shows the allocation for the funds appropriated under the Jobs Bill (P.L. 98-8):

STATE	AMOUNT
Alabama	$1,263,202
Alaska	367,179
Arizona	748,526
Arkansas	491,492
California	10,812,668
Connecticut	1,129,660
Colorado	2,181,599
Delaware	313,850
District of Columbia	15,411,781
Florida	1,684,864
Georgia	2,216,024
Hawaii	287,139
Idaho	225,584
Illinois	6,146,138
Indiana	6,611,755
Iowa	1,300,064
Kansas	343,852
Kentucky	1,326,756
Louisiana	1,478,297
Maine	849,960
Maryland	8,600,500
Massachusetts	2,935,860
Michigan	1,951,500
Minnesota	1,454,918

Mississippi	1,057,221
Missouri	10,639,896
Montana	822,359
Nebraska	146,052
Nevada	1,384,298
New Hampshire	394,410
New Jersey	2,545,485
New Mexico	374,037
New York	3,941,044
North Carolina	1,171,621
North Dakota	535,188
Ohio	5,812,345
Oklahoma	541,134
Oregon	2,741,310
Pennsylvania	5,111,846
Puerto Rico	241,808
Rhode Island	308,485
South Carolina	175,554
South Dakota	151,348
Tennessee	1,495,692
Texas	4,934,181
Utah	1,057,143
Vermont	737,250
Virginia	3,043,920
Virgin Islands	0
Washington	2,930,590
West Virginia	1,466,100
Wisconsin	1,009,355
Wyoming	97,160
TOTAL FUNDING	$125,000,000

Allocations for High/Low Unemployment:

High - 106,997,935
Low - 18,002,065

Question: For the record, could you provide a breakout as to how the purchase contract payments are allocated?

Answer: The attached listing reflects the planned FY 1985 allocation for the Public Buildings Service Purchase Contracts Payment program.

PURCHASE CONTRACT PAYMENTS

	Date of Purchase Contract	Amount of Purchase Contract	FY 1985 PROGRAM				
			Principal	Interest	Taxes	Expenses	Total
Package System							
Projects under Purchase Contract Authorized by the Public Buildings Purchase Contract Act of 1954							
Georgia							
Atlanta, CDC	06/27/60	10,150,939	503,359	12,560	151,300	-0-	667,219
Kansas							
Kansas City, PO CT	01/11/60	1,983,892	67,968	1,269	70,400	-0-	139,637
Nebraska							
Omaha, PO CT	08/17/60	7,597,691	495,303	14,541	187,600	-0-	697,444
New Mexico							
Albuquerque, FOB	04/01/60	4,441,693	146,430	2,608	120,000	-0-	269,038
West Virginia							
Huntington, FOB	02/15/60	2,819,850	93,360	1,676	43,200	-0-	138,236
Subtotal - 5 Projects			1,306,420	32,654	572,500	-0-	1,911,574
Projects under Purchase Contract Authorized by the Public Buildings Amendments of 1972							
Arizona							
Tucson, FB	03/30/74	6,501,061	123,581	386,242	159,700	-0-	669,523
Arkansas							
Batesville, PO CT FOB	06/14/74	2,382,401	45,816	206,977	32,500	-0-	285,293
California							
Santa Ana, FB	04/01/75	12,908,500	236,064	1,236,006	165,700	-0-	1,639,770
Van Nuys, FOB	06/01/74	7,678,000	151,325	577,666	75,000	-0-	803,991

	Date of Purchase Contract	Amount of Purchase Contract	FY 1985 PROGRAM				
			Principal	Interest	Taxes	Admin. Expenses	Total
Delaware							
Dover, FOB	01/19/74	1,878,000	40,059	132,532	22,300	-0-	194,89
Georgia							
Athens, FOB	03/30/74	2,551,279	52,105	162,849	48,600	-0-	263,554
Rome, PO CT	02/16/74	3,448,736	68,139	261,837	77,600	-0-	407,576
Idaho							
Moscow, FB PO CT	10/23/73	2,799,483	54,688	277,052	44,000	-0-	375,740
Sandpoint, FB	08/06/74	2,366,366	45,719	176,390	23,000	-0-	245,109
Illinois							
Chicago, GSA FARC	11/07/73	5,303,452	107,232	498,019	199,000	-0-	804,251
Mt. Vernon, Kenneth J. Gray FB	04/27/74	1,244,942	25,077	110,152	-0-	-0-	135,229
Iowa							
Iowa City, PO FOB	06/21/74	3,970,605	76,359	339,864	184,400	-0-	600,623
Massachusetts							
Fitchburg, Philip J. Philburn, FB	08/22/74	5,413,488	106,563	386,755	210,000	-0-	703,318
Mississippi							
Hattiesburg, William M. Colmer, FB CT	07/19/74	3,653,850	70,267	253,835	77,200	-0-	401,302
New Mexico							
Las Cruces, CT FOB	03/12/74	3,535,349	67,988	347,954	8,400	-0-	424,342

	Date of Purchase Contract	Amount of Purchase Contract	FY 1985 PROGRAM Principal	Interest	Taxes	Admin. Expenses	Total
New York							
Albany, L.W. O'Brien FB	01/07/75	12,682,703	240,633	1,020,196	550,000	-0-	1,810,829
South Dakota							
Aberdeen, FOB	03/19/74	6,438,660	131,553	423,494	262,100	-0-	817,147
Rapid City, CT FOB	05/18/74	3,640,213	70,069	334,567	87,000	-0-	491,636
Tennessee							
Nashville, FB CT, Garage/Tunnel	07/08/74	13,804,809	265,480	1,138,622	340,100	-0-	1,744,202
Texas							
Ft. Worth, FOB PF	03/25/74	3,801,588	74,592	263,437	-0-	-0-	338,029
Pearsall, PO FOB	08/20/73	448,868	9,908	28,992	-0-	-0-	38,900
Vermont							
Essex Junction, Winston Prouty FB PO	06/04/73	550,234	11,418	47,683	8,900	-0-	68,001
Washington							
Wenatchee, FB PO	10/22/73	4,159,686	88,549	306,637	38,000	-0-	433,186
Subtotal - 23 Projects			2,163,184	8,919,758	2,613,500	-0-	13,696,442
Dual System							
Projects under Purchase Contract Authorized by the Public Buildings Amendment of 1972							
1st Indenture	11/06/72		4,780,582	16,617,901	-0-	36,874	21,435,357

	Date of Purchase Contract	Amount of Purchase Contract	FY 1985 PROGRAM Principal	Interest	Taxes	Admin. Expenses	Total
California							
San Diego, FB			-0-	-0-	450,600	-0-	450,600
Indiana							
Indianapolis, FOB			-0-	-0-	402,000	-0-	402,000
Louisiana							
New Orleans, Hale Boggs FB CT			-0-	-0-	560,300	-0-	560,300
Michigan							
Detroit, Patrick V, McNamara FOB			-0-	-0-	3,017,000	-0-	3,017,000
Nebraska							
Lincoln, CT FOB & PF			-0-	-0-	387,300	-0-	387,300
2nd Indenture	12/18/72		5,003,229	13,900,255	-0-	34,666	18,938,150
Hawaii							
Honolulu, Prince J.K. Kalanianaole FB CT			-0-	-0-	-0-	-0-	-0-
New York							
New York, CU CT FOB Annex			-0-	-0-	2,834,000	-0-	2,834,000
Syracuse, CT FOB			-0-	-0-	850,000	-0-	850,000
Oregon							
Portland, FB			-0-	-0-	649,000	-0-	649,000
Puerto Rico							
San Juan, CT FOB			-0-	-0-	498,000	-0-	498,000
Ohio							
Akron, FB CT					-0-		-0-
3rd Indenture	03/21/73		3,129,614	7,254,239	-0-	21,318	10,405,171
California							
Richmond, SSA Western Program Center			-0-	-0-	430,900	-0-	430,900

	Date of Purchase Contract	Amount of Purchase Contract	FY 1985 PROGRAM Principal	Interest	Taxes	Admin. Expenses	Total
Illinois							
Chicago, SSA Western Program Center							
Pennsylvania							
Philadelphia, SSA Mid-Atlantic Program Center			-0-	-0-	2,060,000	-0-	2,060,000
4th Indenture	08/01/73		-0-	-0-	705,700	-0-	705,700
			4,861,409	13,011,473	-0-	31,859	17,904,741
California							
Santa Rosa, FB							
Florida			-0-	-0-	84,800	-0-	84,800
Orlando, CT FOB							
Maryland			-0-	-0-	219,000	-0-	219,000
Baltimore, Edward A. Garmatz FB CT							
Massachusetts			-0-	-0-	855,193	-0-	855,193
New Bedford, Hastings Keith FB							
Michigan			-0-	-0-	60,000	-0-	60,000
Ann Arbor, FOB							
New Hampshire			-0-	-0-	168,000	-0-	168,000
Manchester, Norris Cotton Building							
North Carolina			-0-	-0-	580,000	-0-	580,000
Winston-Salem, CT FOB							
Ohio			-0-	-0-	157,300	-0-	157,300
Columbus, FOB PF			-0-	-0-	-0-	-0-	-0-
Dayton, FB CT			-0-	-0-	-0-	-0-	-0-
Oklahoma							
Oklahoma City, Alfred P. Murrah FB			-0-	-0-	191,400	-0-	191,400

	Date of Purchase Contract	Amount of Purchase Contract	FY 1985 PROGRAM Principal	Interest	Taxes	Admin. Expenses	Total
Oregon Eugene, FB CT			-0-	-0-	221,000	-0-	221,000
Pennsylvania Williamsport, CT FB			-0-	-0-	119,600	-0-	119,600
South Carolina Florence, J.K. McMillan FB CT			-0-	-0-	40,200	-0-	40,200
Virginia Roanoke, Richard H. Poff FB CT			-0-	-0-	175,600	-0-	175,600
Virgin Islands Charlotte Amalie, CT FOB			-0-	-0-	64,000	-0-	64,000
5th Indenture	06/27/75		2,591,550	15,482,179	-0-	200	18,073,929
Alaska Anchorage, CT FOB PF			-0-	-0-	765,000	-0-	765,000
Fairbanks, FB PF			-0-	-0-	110,000	-0-	110,000
Illinois Carbondale, FB			-0-	-0-	-0-	-0-	-0-
Kansas Topeka, FOB CT PF			-0-	-0-	258,600	-0-	258,600
6th Indenture	11/15/74		1,926,228	11,565,770	-0-	83	13,492,081
Connecticut New Haven, FB			-0-	-0-	280,000	-0-	280,000
Florida Ft. Lauderdale, FB, CT PF			-0-	-0-	395,700	-0-	395,700

	Date of Purchase Contract	Amount of Purchase Contract	FY 1985 PROGRAM				
			Principal	Interest	Taxes	Admin. Expenses	Total
Massachusetts							
Pittsfield, FB			-0-	-0-	50,000	-0-	50,000
Michigan							
Saginaw, FB			-0-	-0-	95,000	-0-	95,000
Mississippi							
Jackson, FB			-0-	-0-	376,300	-0-	376,300
South Carolina							
Columbia, FB CT			-0-	-0-	545,500	-0-	545,500
South Dakota							
Huron, FB			-0-	-0-	103,600	-0-	103,600
Texas							
Marfa, BP Sector HQ			-0-	-0-	-0-	-0-	-0-
7th Indenture	06/26/75		6,003,462	33,009,700	-0-	-0-	39,013,162
Georgia							
Atlanta, R. B. Russell, FB CT			-0-	-0-	1,983,400	-0-	1,983,400
Maryland							
Baltimore, SSA Metro-West Bldg.			-0-	-0-	2,350,600	-0-	2,350,600
Woodlawn, SSA Computer Center Bldg.			-0-	-0-	775,400	-0-	775,400
Virginia							
Norfolk, FB			-0-	-0-	170,400	-0-	170,400
Subtotals - 45 Projects			28,296,074	110,841,517	24,040,393	125,000	163,302,984
5 Projects			1,306,420	32,654	572,500	-0-	1,911,574
23 Projects			2,163,184	8,919,758	2,613,500	-0-	13,696,442
45 Projects			28,296,074	110,841,517	24,040,393	125,000	163,302,984
Totals - 73 Projects			31,765,678	119,793,929	27,226,393	125,000	178,911,000

PRESIDENTIAL TRANSITION

Question: A request for $3 million has been made for the Presidential Transition. Is this amount comparable to other transitions? say 1976?.....1980?

Answer: The Presidential Transition Act of 1963 was enacted by Congress to promote the orderly transfer of executive power in connection with the expiration of the term of office of a President and the inauguration of a new President. A figure of $900,000 was to cover all expenses and would be divided equally between the in-coming and out-going administrations.

The enactment of Public Law 94-499 in October 1976 raised the amount available for Presidential Transition from $900,000 to $3,000,000, with the stipulation that (1) not more than $2,000,000 may be appropriated for the President-elect and vice President-elect; and (2) not more than $1,000,000 may be appropriated for the former president and former Vice-President.

ALLOWANCES AND OFFICE STAFF FOR FORMER PRESIDENTS

Question: We have a grand total as to the cost of former Presidents and their staffs. For the record, could you provide a detailed list of expenditures for each former President?

Answer: The attached listings provide detail for fiscal years 1983 through 1985.

FY 1983

		Former Presidents			
	Nixon	Ford	Carter	Widows	Total
Personnel Compensation	$ 88980	$ 95516	$ 148169	$ 0	$ 332665
Personnel Benefits	10236	12243	16891	0	39370
Pensions	77861	77861	77861	20000	253583
Travel	6139	28089	4820	0	39048
Motor Pool	0	0	2779	0	2779
Trans. of things	62	256	199	0	517
Rent, Utilities & Communications:					
Equipment Rental/Depreciation	2016	708	502	0	3226
Telephone	25763	40036	26809	0	92608
Postage	3761	8800	9267	2400	24228
SLUC	66206	55698	62924	0	184828
Printing	3983	0	8338	0	12321
Other Services	1187	3515	15998	0	20700
Supplies & Materials	5674	8462	6977	0	21113
Equipment	0	0	1833	0	1833
Total Appropriation	$ 291868	$ 331184	$ 383367	$ 22400	$ 1028819

FY 1984

	Former Presidents					
	Nixon	Ford	Carter	Jackson Place	Widows	Total
Personnel Compensation	$ 95000	$ 98000	$ 113000	$ 0	$ 0	$ 306000
Personnel Benefits	12000	12000	14000	0	0	38000
Pensions	82000	82000	82000	0	20000	266000
Travel	34000	34000	34000	0	0	102000
Motor Pool	400	300	300	0	0	1000
Rent, Utilities & Communications:						
Equipment Rental/Depreciation	3500	1000	500	0	0	5000
Telephone	32000	35000	37000	0	0	104000
Postage	5500	10000	10000	0	2500	28000
SLUC	79000	66000	87000	32000	0	264000
Printing	4000	5000	4000	0	0	13000
Other Services	6000	6000	7000	0	0	19000
Supplies & Materials	8000	9000	8000	0	0	25000
Total Appropriation	$ 361400	$ 358300	$ 396800	$ 32000	$ 22500	$ 1171000

FY 1985

	Former Presidents					
	Nixon	Ford	Carter	Jackson Place	Widows	Total
Personnel Compensation	$ 96000	$ 96000	$ 96000	$ 0	$ 0	$ 288000
Personnel Benefits	12000	12000	13000	0	0	37000
Pensions	82900	82900	82900	0	20000	268700
Travel	34000	34000	34000	0	0	102000
Motor Pool	400	300	300	0	0	1000
Rent, Utilities & Communications:						
Equipment Rental/Depreciation	3500	1000	500	0	0	5000
Telephone	35400	35400	35500	0	0	106300
Postage	5000	11000	11000	0	3000	30000
SLUC	80000	67000	89000	32000	0	268000
Printing	4000	5000	4000	0	0	13000
Other Services	9000	8000	9000	0	0	26000
Supplies & Materials	8000	8000	9000	0	0	25000
Total Appropriation	$ 370200	$ 360600	$ 384200	$ 32000	$ 23000	$ 1170000

INSPECTOR GENERAL

Question: There has been renewed emphasis on IG activities. Has any significant change in contract activities surfaced?

Answer: Although we have increased our pre-award audit of contracts as a means of identifying potential problems, and as there has been increased contracting activity by GSA, the driving force for additional contract audit personnel results from significant lost opportunities for cost avoidance and recoveries in both pre-award and post-award contract audits.

While contracting activity in GSA has not significantly increased, the use of the contracts by all Government agencies has increased. This results in increased potential for avoidances and recoveries by diverting more resources to the contract area. It also requires additional resources to be applied in this area because our depth of coverage in the past has been minimal as a result of the number of personnel which we have had available to perform these audits. For example, only 125 of about 5,000 existing contracts under Negotiated Commercial Item Schedules can be audited annually. Recoveries or cost avoidances related to the level of coverage were $25.4 million in fiscal year 1983. The additional 45 work years and 1.937 million requested will provide the opportunity to more effectively address the contract audit program and realize greater recoveries and cost avoidances to the Government.

OFFICE OF INFORMATION RESOURCES MANAGEMENT

Question: The breakup of AT&T has had an effect on the entire nation. Has GSA had an opportunity to predict what the net impact is going to be on the Federal Government? How are telecommunication costs going to be affected?

Answer: GSA's preliminary prediction is that the breakup of AT&T and intrastate Bell Operating Company (BOC) rate increases filed in 1983, partly for divestiture reasons, will cause the Federal Government's overall payments to communications common carriers to go up no more than 5 to 10 percent in calendar year 1984. These increases are comprised of local and interstate increases as follows.

O The BOC-requested rate increases would raise Federal costs by over $108 million in 1984 if fully approved, but state commissions typically grant only about 45 percent of what the BOCs ask for. That would come to about $49 million, or less than eight percent of Federal billing for local telecommunications services and equipment. That impact will be further lessened by GSA's multimillion dollar year-end purchase of in-place customer premises equipment (CPE), which should avoid over $40 million in expected leasing costs over 1985 and 1986.

O If AT&T's preliminary projections in October 1983 are reasonably accurate, its new interstate tariff will barely nudge Federal costs up, only $4 million, or less than 1 percent of 1982 billing. The deferral of residential and single-line business access charges will raise Federal interstate long distance and WATS bills. But that rise could well be more than offset by AT&T's expected reductions in private line charges. In 1982, private line charges comprised more than three-fourths of the interstate billing charges to the Federal Government.

O BOC charges to the interstate carriers if passed through will raise Federal costs somewhat more than the $1 million, but many state commissions have at least partly approved BOC proposals to offset the interstate access charges for Centrex CO, which the Federal Government heavily uses, by reducing the charges for intrasystem intercommunication.

The only major increase not included in AT&T's initial estimate of the impact on Government is the possible FCC imposition of Terminating Channel (TC) charges at each termination of AT&T's tandem switches. AT&T has claimed that TC charges are designed to recover local distribution costs. Since none are incurred at those switches, no TC charges should be levied there. If the FCC insists on imposing them anyway, the added costs for GSA's Federal Telecommunications System (FTS) alone would come to $61.4 ~~million~~ a year. That charge alone would increase Federal costs by 5 percent. The details of this and other final FCC judgements on AT&T's proposed interstate tariffs and some BOC access tariffs will not be known until the Commission's order is announced (expected by March 23, 1984, but not required until April 2).

FEDERAL SUPPLY AND SERVICES

CUSTOMER BASE EXPANSION PROGRAM

Question: Emphasis has been placed on a more standardized supply procurement process in recent years. Could you briefly outline activities that are being undertaken?

Answer: GSA's Federal Supply and Services has underway several initiatives to increase standardized support where proven cost-effective to the Government.

--Dispersed national procurement assignments have been consolidated into 4 national Commodity Centers responsible for designated commodities which are tools, furniture, automotive and general office and scientific products. These centers give GSA one face to industry and to the customer which offers greater responsiveness to both. Centers will increase the efficiency of the procurement process through uniform policy implementation, development of greater and centralized product and technical expertise, and consolidation of procurement and inventory management activities. We will continue to explore beneficial alternatives and improvements to current operations and to place greater emphasis on local procurement support. Other initiatives in the area of standardizing the supply and procurement process include:

--Color coding of Federal Supply Schedules to assist agencies by simplifying the selection of products with the required functions at the lowest possible price. Green-coded items have basic features and cost the least; they can be purchased routinely. Yellow- and red-coded purchase items have more sophisticated features, cost more and require purchase approval at higher levels. All our schedules will be reviewed this fiscal year for color banding. The color banding system will allow us to gather more finite information on customer requirements and narrow our purchasing to those products meeting a majority of the needs. This, plus a vendor's interest in having products appear in the green band, will increase competition and lower prices to the Government.

--Multi-year contracting brings the Government the efficiency of reduced time in the contracting process and provides the contractor the assurance of an extended market for goods and services.

--On the retail level, GSA is emphasizing customer-oriented distribution of goods and services. It has established Customer Service Bureaus (CSBs) in each region as single points of responsibility for retail supply, travel and transportation, and personal property utilization.

Under the CSB umbrella:

--Customer Supply Centers, the latest innovation in retail service, allow agencies to mail, phone or walk-in orders for routine office and maintenance supplies and have the goods enroute by small parcel carrier within 24 hours. No paperwork is required of the customer.

--Travel Management Centers are commercial agents under GSA contract providing full travel services, including ticketing, hotel, motel and auto reservations, and conference planning.

--Personal Property Centers in each region accept accountability for that which is excess to needs of agencies. Specialists transfer property among agencies for the greatest utilization, and when appropriate, have it rehabilitated to extend its life.

--We are automating the procurement process by use of electronic mail to transmit contracting documents, including vendor bids. Also we are providing customers electronic access to our procurement data base and other marketing information.

CHARGE CARD PROGRAM

Question: The Charge Card Program has only been in place since October. Initially there were grumblings. How are things proceeding or is it too early to make that kind of determination?

Answer: The program was implemented October 1, 1983, with seven agencies participating. As of February 1984, nine additional agencies were participating in the program and a total of 15,820 cards had been issued to their employees.

USDA Soil Conservation Service reports a 21 percent decrease in the number of cash advances requested since October; the National Credit Union Administration has gone from approximately $500,000 down to $30,000 in the dollar value of cash advances requested; General Services Administration (GSA) reflects a 57 percent decrease in outstanding cash advances over last year.

Diner's Club reports that only 4.6 percent delinquency is being experienced in payments by travelers since the card's inception. Delinquency is defined as "over 60 days following the billing closing date of the period in which charges were incurred." This compares to a corporate rate about twice as high.

The GSA Travel Payment and Expense System leads only to positive, not adverse effects on individual Federal employees who travel on official Government business. By combining both charge cards and travelers checks into a single, integrated payment and expense system, employees are assured that all travel-related expenses can be met without having to expend personal funds in advance of reimbursement by their agencies. Such expenses include transportation, lodging, meals, automobile rentals, and incidental expenses such as ground transportation, telephone calls, laundry, and tips. Previously, many agencies placed a restriction on the amount of cash funds which could be advanced to travelers. If, for example, an agency limited travel advances to 80 percent of the estimated per diem costs, then employees were required to cover the remaining 20 percent out of personal funds, with subsequent reimbursement by their agencies. Under the new system, employees are able to cover all costs absent out-of-pocket expenditures, and to be reimbursed by their agencies prior to the due date for remitting payment to the charge card company. In addition, the new system offers the following advantages at no cost to the individual employee or to the Government:

- issuance of cards without prior credit checks or approval if designated by the employing agency to receive cards;
- no annual card fees, interest charges, or late fees assessed;
- free accident insurance coverage ($150,000) each time the card is used to purchase common carrier passenger transportation;
- free personal check cashing privileges using the card as identification, both in the U.S. and abroad;
- guaranteed hotel reservations, including late arrivals, using the card as a confirmation vehicle;

- o freeing of personal lines of credit by allowing employees to use the Government card instead of personal charge cards for official travel; and

- o significantly reducing the amount of cash employees must carry on their person(s) or leave in hotel rooms while in travel status.

SURPLUS PERSONAL PROPERTY SALES PROGRAM

. Question: Could you briefly outline what has happened in the surplus property sales program? Is that good? What are the projections for fiscal year 1985?

Answer: Service to customer agencies has improved as a result of selling 90 percent or better of all property in 60 days or less. This is a major improvement over the previous 120 day service level. To further accelerate the selling process, a Solicitation for Offers is being developed to engage commercial auctioneering sales and service firms to sell Government vehicles. This assistance is necessary because of unanticipated influx of 10,000 additional vehicles for sale. These are all routine steps towards maintaining a satisfactory level of performance. Proceeds from the sale of surplus and exchange/sale property for fiscal year 1983 amounted to $53.9 million - the second highest for any year. Proceeds of $9.5 million were achieved in September alone. This was the highest proceeds production for any month in the history of the personal property sales program. Proceeds for fiscal year 1984 will exceed $60 million; proceeds for 1985 are estimated at $67 million.

REAL PROPERTY PROGRAM ACCOMPLISHMENTS

Question: Could you briefly outline what has happened in the surplus Real Property Sales Program? Is that good?

Answer: Since enactment of Executive Order 12348, the General Services Administration has been actively engaged in developing significant policies and procedures geared to the more effective and efficient execution of the real property disposal program. As a result there has been substantial increases in the level of productivity in FY 1983 with only minimum increase in program cost.

TOTAL DISPOSALS	- 105 Percent Increase Over FY '82 (225 parcels disposed of in FY '82; 460 parcels disposed of in FY '83.)
TOTAL DISPOSAL VALUE	- 102 Percent Increase Over FY '82. (225 parcels disposed of in FY '82 with value of $115.1 million; 460 parcels disposed of in FY '83 with value of $232 million.)

PARCELS SOLD - 164 Percent Increase Over FY '82.

(150 parcels sold in FY '82; 396 parcels sold in FY '83.)

SALES PROCEEDS - 134 Percent Increase Over FY '82 and 316 Percent Increase Over FY '81.

(FY '82 sales proceeds $81.9 million; FY '83 sales proceeds $191.3 million.)

FEDERAL TRANSFERS - 13 Percent Increase in Number and 86 Percent Increase In Value of Transfers Over FY '82.

(30 transfers valued at $17.7 million in FY '82; 34 transfers valued at $33 million in FY '83.)

DISCOUNT CONVEYANCES - 33 Percent Decrease in the Number and 54 Percent Decrease in the Value Under FY '82.

(45 discounts valued at $15.5 million in FY '82; 30 discounts valued at $7.1 million in FY '83.)

E.O. SURVEYS - 75 Percent Increase Over FY '82.

(104 performed by GSA; 99 performed by Holding Agencies; 314 percent increase in acres reported excess and 845 percent in value over FY '82.)

(812 acres, valued at $7.3 million excessed in FY '82; 3,365 acres, valued at $69 million excessed in FY '83.)

INVENTORY - 14 Percent Decrease in Properties and 42 Percent Decrease in Value of Properties Under FY '82.

(546 properties valued at $765 million at end of FY '82; 468 properties valued at $441 million in current inventory.)

(296 properties reported excess in FY '82; 289 properties reported excess in FY '83.)

REAL PROPERTY PROGRAM GOALS

Question: What are the projections for FY 1985?

Answer: FY 1984 - In '84 our goal is to dispose of 195 parcels valued at $189 million. This includes 135 sales worth $143 million; 15 transfers worth $20 million; and 45 discounts worth $26 million.

As of March 1, 1984, we have disposed of 189 parcels valued at $47 million. This includes 164 sales worth $22 million; 13 transfers worth $6.7 million and 12 discounts worth $18.3 million. In 1984 we estimate that receipts will be $198 million if our inventory is increased by $95 million during the year as anticipated.

FY 1985 - In FY '85 our goal is to dispose of 221 parcels valued at $210 million. This includes 151 sales worth $156 million; 18 transfers worth $24 million; and 52 discounts wirth $30 million. With the addition of $104 million in anticipated inventory increases, we estimate our total receipts will be $216 million in 1985.

IMPLEMENTATION - To achieve the above program goals there must be substantial increase in excess reports by Federal holding agencies. Otherwise, excess property available for disposition will not maintain the levels of recent accomplishments.

FURNITURE

Question: Are we purchasing furniture in fiscal year 1985?

Answer: Yes. We do expect to purchase furniture in 1985. However, agency requirements may shift from commercial office furniture to new Hi Tech (computer) lines. Military requirements should increase due to crew quarter improvements and procedural changes in family quarters requiring an additional $50 million for household furnishings.

Question: What is our current stored inventory?

Answer: Office furniture under Federal Supply Group 71 is not stocked. However, we do stock small items such as blackboards, mirrors, and picture frames which are included in Federal Supply Group 71. The GSA Furniture Reclamation Center located in Franconia, Virginia, provides agencies with rehabilitated furniture.

At the end of fiscal year 1980, furniture inventories were $65 million. In December 1981, GSA began to contract for validated requirements, but rather than rebuilding inventories, furniture support was established under the Special Order Program, calling for direct delivery from contractors to customers. Inventory declined to $1.1 million by the end of fiscal year 1983 and is at $819,425 as of 3/9/84. Inventory by the end of fiscal year 1984 is projected to be $1.2 million and will cover small items in Federal Supply Group 71 such as blackboards, mirrors, picture frames and card files, which are effectively supported through our stock program.

Question: In light of those numbers, is it necessary to purchase more this year?

Answer: Yes - to maintain inventory for stock items as they are depleted by requisitions and to support buy on demand requirements for nonstocked items.

NATIONAL ARCHIVES AND RECORDS SERVICE

REVIEW OF CLASSIFIED MATERIAL

Question: The volume of classified material in records centers is staggering. Currently GSA reviews material over 30 years old automatically. Should changes be made to review records on a shorter time basis?

Answer: The records stored in records centers and not yet in the legal custody of the National Archives are the responsibility of the retiring agency rather than the National Archives. Until the records are appraised for permanent value and transferred to the National Archives, no systematic declassification review is required or cost-effective.

The National Archives conducts declassification reviews on records in the legal custody of the National Archives and such reviews are based on public requests and the internal requirements of the National Archives. The National Archives, as with most other agencies, has never had the resources to declassify all records as they become 30 years old. Declassification review is not automatic--the records must be examined at the folder or page level and individual decisions must be made on each file or series of records examined. Unless all pages can be declassified, the document must remain in classified storage.

--- Executive Order (E.O.) 12356 has placed the review of most classified records at 30 years because:

--- agreements with foreign governments preclude declassifying their information until it is 30 years old. Such information is widespread in Government records.

--- experience under the previous E.O. 12065, which provided for declassification after 20 years, demonstrated that many records created after 1945 are still sensitive at 20 years, but likely to be releaseable at 30 years.

--- there are insufficient resources to declassify all records as they become 30 years old. Without sufficient funding, reducing the time period of when records may be considered for declassification will only increase the backlog of historically significant records in the National Archives requiring declassification review.

PRESIDENTIAL LIBRARIES

Question: The press in recent days has questioned the cost of Presidential libraries to the Federal

Government. Could you briefly discuss current costs and trends for the future? Should changes be made?

Answer: The estimated cost for 1984 is $15.2 million to operate seven Presidential libraries (for Presidents Hoover through Johnson and Ford), the Nixon Presidential Materials Project, the Carter Project (a library is under development), and for associated administrative costs. Approximately half of the budget ($7.7 million) is devoted to administering Presidential historical materials (the principal cost is salaries for archival personnel). The remaining $7.5 million is devoted to building-related costs. The buildings are donated, but GSA assumes the costs of operation, which include cleaning, utilities, mechanical operation, guard service, and repairs.

The cost for the same level of activity during 1983 was approximately $13.3 million. The rise in costs was due to increased costs of building operation and to the increase in Federal salaries. We estimate that this same yearly increase would continue in the future were there to be no expansion of the program.

The program will expand, however, because the National Archives is obligated to administer Presidential materials under the Presidential Records Act, the Presidential Recordings and Materials Preservation Act, and under deeds of gift accepted under the Presidential Libraries Act. The Carter Library is now under development for a planned opening in 1985 or 1986, and libraries for Presidents Nixon and Reagan are in earlier stages of development. The total yearly cost to operate a library housing the records of a recent President is $1.5 to $2 million.

In order to hold down the cost of Presidential libraries, the National Archives has

--developed building guidelines to guard against "over building"and inefficiency,

--assumed operation of library buildings on an actual cost basis, thus tightening management control of costs,

--begun automation of some functions to hold down salary costs,

--taken advantage of new technology to drastically lower the costs of preserving audiovisual records, and

--encouraged the funding of some library activities by private library support organizations.

Other means which have been proposed to hold down library costs include establishment of a central archival repository for Presidential materials, requiring a private endowment to fund operations, and setting a legal limit to library size. None of these has yet been proposed in a form fully agreeable to us.

It is our position that the preservation and administration of Presidential historical materials is an absolute Government responsibility which is effectively and economically carried out through Presidential libraries.

QUESTION SUBMITTED BY SENATOR ARLEN SPECTER

PUBLIC BUILDINGS SERVICE

Question: Regarding the Social Security Administration building in Wilkes-Barre, Pennsylvania: Could you please give the Committee an update as to the progress in consolidating the three operations of the Social Security Administration's Data Processing Center now presently located in Wilkes-Barre, Pennsylvania?

Answer: At the request of the Senate Committee on Environment and Public Works, we are currently evaluating the potential purchase of the Luzerne Products Building for the consolidation of these SSA activities. If it is determined to be in the best interest of the Government, based on a contract appraisal and engineering studies now in process, we will acquire the building with funds appropriated for our opportunity purchase program.

QUESTIONS SUBMITTED BY SENATOR PAUL LAXALT

TUNGSTEN DISPOSAL

Question: Would you explain why the GSA continues to offer such large, consistent quantities of tungsten in the face of the severely depressed conditions of demand?

Answer: GSA has been offering excess tungsten for sale continuously since 1966 and is a known, recognized presence in the market. It must maintain this presence to generate funds for the purchase of needed stockpile materials. Such disposals also reduce the cost of carrying government inventories.

After assessing the market outlook, GSA made a significant reduction in its monthly tungsten offerings beginning with Fiscal Year 1983. Actual amounts sold within these offerings vary depending on market demand.

Question: Have GSA with FEMA given consideration to temporarily withdrawing from the market and stop offering regular monthly amounts? Possibly for a year or so?

Answer: GSA has not considered a withdrawal from the market because tungsten sales proceeds have become even more important to rebuilding the stockpile since we have lacked disposal authorization for excess silver. Moreover, GSA sould face potential problems in re-establishing its long term presence in the market if it withdrew.

Question: Have GSA with FEMA looked into the question of sales terms and conditions? What is the present situation?

Answer: GSA, which has sole responsibility for setting the terms and conditions of sale for excess tungsten, attempts to market materials in a way that does not unduly favor any one segment of industry. We have recently re-examined our tungsten sales practices and made our views known to agencies with stockpile interest. We do not anticipate making changes in current disposal methods that would be contrary to existing provisions in Stockpile legislation and goverment regulations. There is a certain rigidity to the system under which we function, in contrast with the operational flexibility enjoyed in the commercial environment.

Question: What is the share of the market that the government takes in both domestic and international markets? What is the effect of this sale on the normal commercial market?

Answer: During the period 1975-1983, GSA tungsten sales for domestic utilization equated on the average to approximately 10 percent of U.S. consumption. With respect to the international market, it is estimated that such sales represent about one percent of the overall business. Accordingly, GSA activity should not be viewed as a controlling factor in domestic and international markets. The principal influences on the market have been reduced demand levels and the marketing strategies of key foreign suppliers.

The Subcommittee understands that GSA is the defendent in a case, Request for Equitable Adjustment Under GSA Lease Numbers GS-08B-09785 (Helena, Mt.), GS-08B-09877 (Durango, Colorado) and GS-08B-09899 (Lakewood, Colorado), with a potential liability to the government of up to $262 million. We further understand that the plaintiffs in the case are willing to negotiate a settlement with the government.

1. What is the status of the case?

On December 14, 1983, Mr. and Mrs. John Sanderson filed a claim for $262,000,000 in connection with Lease Numbers GS-08B-09877, Durango, Colorado; GS-08B-09785, Helena, Montana; and GS-08B-09899, Lakewood, Colorado, concerning lease matters that essentially started in the fall of 1977 and continued thereafter.

Inasmuch as the claim presented exceeds the amount of $50,000, in accordance with the Contract Disputes Act of 1979, the Contracting Officer wrote to the Sandersons estimating that a final decision could be rendered on or about April 30, 1984. However, because of the complexity of the case and a request by the Sandersons on March 9, 1984 to review information held within the General Accounting Office, the above estimate for rendering a final decision will be delayed.

2. What has the General Services Administration done to resolve this case?

The Contracting Officer is presently reviewing the claim material submitted, together with available case files, to determine whether Government liability exists. Any attempt to resolve the matter would necessarily come after an initial Contracting Officer determination concerning the probability of Government liability.

3. Is the General Services Administration willing to negotiate with the Sandersons to resolve this matter?

As reiterated in Question 2 above, the question of liability must first be resolved before any attempted settlement negotiation could take place. Assuming that the Contracting Officer determines that a probable Government liability exists, the General Services Administration would certainly be willing to resolve the matter through appropriate negotiation.

4. Has GSA reviewed the evidence being held within the General Accounting Office?

On March 9, 1984, Mr. Buell White, Counsel for the Sandersons, made the Contracting Officer aware of the existence of materials that the Sandersons submitted to the GAO concerning the above-captioned Sanderson claim. On March 22, 1984, the Contracting Officer corresponded with the Sanderson's Counsel, indicating that should the Sandersons wish to supplement the claim materials submitted with the GAO information, to please do so. The Sandersons responded through Counsel on April 6, 1984, indicating that the Sandersons were not privy to the GAO review, and therefore, could not make the information available. The Sandersons went on to state that they felt obligated to make the Contracting Officer aware of another source of information, and left it to the Contracting Officer whether or not she wished to review the material.

GSA has not reviewed the material in the possession of GAO since the submission of the Sanderson claim to the Contracting Officer in Region 8. It is understood that there are several large cardboard boxes of documents involved.

It is accepted practice that any party who submits a claim to the Contracting Officer will submit with the claim all documents and information which will support the claim. In this instance, Mr. White, the attorney for the Sandersons, is obviously aware, at least in general, of what information the Sandersons sent to GAO in support of the action they requested from that office. If he wishes any or all of this information made available to the Contracting Officer to support his client's position against GSA, it is incumbent on him to examine the material, determine what is relevant (and has not already been given to the Contracting Officer) and arrange to have those additional documents forwarded to Denver. It is the obligation of a claimant against the Government to identify and furnished to the Contracting Officer, any information he feels supports his claim. It would create an obviously impossible situation if the Contracting Officer and assigned Counsel were to travel around the country to each location where the claimant's attorney said there was information pertinent to the claim, information which the attorney has not examined, which might or might not be relevant, and which might or might not be duplicative of information already submitted.

SUBCOMMITTEE RECESS

Senator **Abdnor**. We won't be holding another hearing until Tuesday, March 13. That is 1 week from today. We will meet in this very room and receive testimony from Postmaster General William Bolger and Dr. Donald Devine, Director of the Office of Personnel Management.

So with that, we stand in recess until Tuesday, March 13, 1984, at 10 o'clock.

[Whereupon at 12:07 p.m., Tuesday, March 6, the subcommittee was recessed, to reconvene at 10 a.m., Tuesday, March 13.]

TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 1985

THURSDAY, MARCH 15, 1984

U.S. Senate,
Subcommittee of the Committee on Appropriations,
Washington, D.C.

The subcommittee met at 1:30 p.m., in room SD-124, Dirksen Senate Office Building, Hon. James Abdnor (chairman) presiding.

Present: Senators Abdnor, DeConcini

Also present: Senator Chiles.

DEPARTMENT OF THE TREASURY

Office of the Secretary

STATEMENT OF HON. DONALD T. REGAN

OPENING STATEMENT

Senator Abdnor. The subcommittee will come to order.

Today, the subcommittee will receive testimony from the Secretary of the Treasury, the Honorable Donald T. Regan; John F.W. Rogers, Assistant to the President; Manus J. Fish, Jr., Regional Director, National Park Service, and S. Kenneth Howard, Executive Director of the Advisory Commission on Intergovernmental Relations. The Navy is submitting a statement on the Vice President's residence.

Well, Mr. Secretary, it is always a pleasure to welcome you to our committee. I am well aware that you have had an extremely busy day. I saw you starting out at 7 a.m. on the tube this morning, and I know you also had a hearing this morning. You are here now, and I know you have to leave as soon as possible to meet with the President.

We certainly will dispense with all formalities and get right down to business, but we do welcome you to the committee. I am sure Senator DeConcini has a comment.

Senator DeConcini. Mr. Chairman, thank you.

Mr. Secretary, I have a statement after our discussion, and I would like to put it fully in the record, but let me say that you and I, Mr. Chairman, have been rather quiet for months while the media have publicly gone after the Secretary over the sad state of the fiscal 1985 Customs budget.

I sat back in quiet disbelief and watched Dan Rather, the Washington Post, the Miami Herald, Newsweek, and the Washington Times outline the tragic details of how the Treasury budget evolved. I can't remain silent any more, Mr. Secretary. I have great respect for you, but if I were you, I would be embarrassed to be appearing here today trying to reconcile the so-called law and order posture of this administration with the distorted mix of budget priorities contained in the Treasury Department budget.

Mr. Secretary, the fiscal year 1985 Treasury Department budget, is an antilaw enforcement document in my judgment, highlighted by misguided priorities and blatant, overt sabotage of the Customs Service.

For example, I would like to have you explain today how you and the President can embrace a budget that on the one hand calls for cutting 954 positions out of the Customs Service, while at the same time recommends a 28-percent increase in your own Office of the Secretary's budget. How can you and the President sign off on a budget that eliminates 175 special Secret Service agents added last year by the Congress to help with the Olympics, the Presidential campaign, and new antiterrorism initiatives, while at the same time supporting an increase of $206 million for the Internal Revenue Service.

How can you and the President support a $1 million increase in your international affairs activities while at the same time recommend a devastating 45-percent cut in the Customs air interdiction program?

Unfortunately, I believe that the answer is that law enforcement has taken a back seat to everything else at Treasury. The President's fiscal 1985 Customs budget should have the narcotics traffickers of the world dancing in the streets. You and the President have approved a cut of 45 percent in the Customs air program, the program developed by Members of Congress on both sides of the aisle, both sides of the Capitol, to combat drug traffickers who smuggle drugs into the United States by air.

You also want to cut 954 positions at Customs in the 1985 budget. Last year, it was even worse. You and the President recommended cutting 2,000 positions at Customs. Add to this the ill-conceived primary inspection program and Customs loses another 282 positions. By dismantling the Customs air program and slashing positions, I believe that you and the President are betraying the Vice President and his staff, who have worked with us to establish an air interdiction program for the borders of the United States.

I believe that you and the President have betrayed the Congress, which has provided funding and support for a solid air interdiction strategy that uses military equipment to attack drug smugglers.

I believe that we need clarification today, and that you will help us understand that.

Mr. Secretary, let me conclude by saying, I believe, that you and President Reagan have turned your backs on drug interdiction, but I hope today that you can explain that I am wrong.

The President appointed the Vice President to launch a major new drug interdiction program to slam the door on drug traffickers. Now you and the President have slammed the door on our drug interdiction program.

Clearly, the tough rhetoric of last March is now no more than just whimpers. I am disappointed, as you can tell. I have held back my criticism. We have talked about it, and I hope today that you can explain that maybe this is all someone else's doing.

I intend to make public specific funding recommendations at the March 21 hearing which Congressman English of Oklahoma will be holding, and I hope the administration will turn around on this issue, and come back to where you were about a year and a half ago.

Thank you, Mr. Secretary.

Senator ABDNOR. Thank you, Senator DeConcini.

Before calling on the Secretary, I am going to call on Senator Chiles, who is not a member of the subcommittee, but used to be chairman of it, and who has a great interest in the air interdiction program.

Senator CHILES. Mr. Chairman, I don't want to impinge on the time of the subcommittee. I thank you for allowing me to be here. I will not make a long opening statement, but I certainly stand on your opening statement and Senator DeConcini's statement in regard to the serious concern on the budget proposals for law enforcement.

My staff and I are working with Senator DeConcini and his staff on recommendations to help insure that Customs has adequate funding to meet its law enforcement responsibilities, and I look forward to working with you, Mr. Chairman, and Senator DeConcini, in making sure that these recommendations get implemented.

I do have a few questions that I would like to have the ability to ask when we get to the point.

PREPARED STATEMENT

Senator ABDNOR. Very good. With that, we will finally give the Secretary a chance to say something here. As you know, your whole statement will be made part of the record.

[The statement follows:]

STATEMENT OF HON. DONALD T. REGAN

I AM PLEASED TO BE HERE TODAY TO DISCUSS THE DEPARTMENT OF THE TREASURY'S OPERATING BUDGET REQUEST FOR FISCAL YEAR 1985.

THE BUDGET THAT WE ARE PRESENTING TODAY WILL ENABLE US TO CONTINUE TO CARRY OUT IN FISCAL YEAR 1985 THOSE ESSENTIAL FUNCTIONS WITH WHICH THE DEPARTMENT IS ENTRUSTED. SPECIFICALLY, WE WILL COLLECT OVER $745 BILLION IN FEDERAL REVENUES AND ADMINISTER THE NATION'S TAX LAWS. WE WILL MANAGE THE FISCAL AFFAIRS OF THE GOVERNMENT, INCLUDING PAYING ITS BILLS AND FINANCING THE NATION'S PUBLIC DEBT. WE WILL MANUFACTURE THE NATION'S CURRENCY AND COIN AND HELP REGULATE OUR COUNTRY'S FINANCIAL INSTITUTIONS. WE WILL PROCESS PASSENGERS AND CARGO COMING INTO THE COUNTRY, ENFORCING IMPORT AND EXPORT LAWS AT OVER 300 PORTS OF ENTRY. WE WILL PROTECT THE PRESIDENT AND VICE-PRESIDENT AS WELL AS OTHER DIGNITARIES. AT THE SAME TIME, WE WILL CONTINUE TO ADVISE THE PRESIDENT ON MONETARY, FISCAL, AND BOTH DOMESTIC AND INTERNATIONAL ECONOMIC POLICY.

TO CARRY OUT THESE FUNCTIONS, WE ARE REQUESTING A BUDGET OF $5.2 BILLION AND 114,771 AVERAGE POSITIONS IN FISCAL YEAR 1985 FOR OUR APPROPRIATED BUREAUS. THIS REPRESENTS AN INCREASE OF $178 MILLION AND A DECREASE OF 2,457 AVERAGE POSITIONS COMPARED TO FISCAL YEAR 1984 LEVELS, WHICH INCLUDE PENDING PAY SUPPLEMENTAL REQUESTS TOTALLING $78.0 MILLION AND A PROGRAM SUPPLEMENTAL OF $1 MILLION. I SHOULD NOTE THAT THE INCREASE IN FUNDING IS 3.4 PERCENT BELOW THE 1985 ESTIMATED INFLATION LEVEL OF 4.8 PERCENT AND, THEREFORE, IS A DECREASE IN REAL TERMS.

OUR FISCAL YEAR 1985 BUDGET WILL ACHIEVE FIVE MAJOR OBJECTIVES.

-- FIRST, WE WILL EXPAND MODERNIZATION ACTIVITIES IN THE INTERNAL REVENUE SERVICE, U.S. CUSTOMS SERVICE, BUREAU OF GOVERNMENT FINANCIAL OPERATIONS, BUREAU OF THE PUBLIC DEBT, AND OFFICE OF THE SECRETARY.

-- SECOND, WE WILL STRENGTHEN TAX ENFORCEMENT IN THE INTERNAL REVENUE SERVICE THROUGH ENHANCEMENT OF THE EXAMINATION, LITIGATION, INFORMATION RETURNS, AND RESEARCH PROGRAMS WITH THE OBJECTIVE OF CONTAINING THE RECENT GROWTH IN THE TAX GAP RELATED TO UNREPORTED INCOME.

- -- THIRD, WE WILL IMPLEMENT THE INTEREST AND DIVIDEND TAX COMPLIANCE ACT OF 1983 IN THE INTERNAL REVENUE SERVICE FOR THE BACKUP WITHHOLDING SYSTEM.
- -- FOURTH, WE WILL MAINTAIN OUR LAW ENFORCEMENT ACTIVITIES, WITH PARTICULAR EMPHASIS ON MODERNIZATION OF SELECTED EQUIPMENT.
- -- FIFTH, WE WILL ACHIEVE MAJOR SAVINGS IN PERSONNEL AND COSTS IN TREASURY BUREAUS FROM AUTOMATED SYSTEMS AND GREATER EFFICIENCIES.

I WOULD LIKE TO HIGHLIGHT THESE INITIATIVES. TREASURY WITNESSES IN HEARINGS BEFORE THIS SUBCOMMITTEE WILL PROVIDE DETAILS OF THESE PROPOSALS.

IN THE AREA OF MODERNIZATION, WHICH I CONSIDER TO BE ONE OF MY MOST IMPORTANT OBJECTIVES, WE ARE REQUESTING AN INCREASE OF $102 MILLION FOR IMPROVEMENTS IN AUTOMATED SYSTEMS AND OTHER NON-PERSONNEL INTENSIVE PROCESSES SO AS TO RELIEVE FUTURE PRESSURES FOR GROWTH IN PERSONNEL. AS YOU KNOW, WITH THE SUBCOMMITTEE'S SUPPORT, WE HAVE ESTABLISHED A NEW POSITION OF ASSISTANT SECRETARY FOR ELECTRONIC SYSTEMS AND INFORMATION TECHNOLOGY TO INSURE THAT THESE MODERNIZATION EFFORTS RECEIVE TOP POLICY LEVEL REVIEW AND ATTENTION. THIS MODERNIZATION REQUEST REPRESENTS 20 PERCENT OF THE DEPARTMENT'S BUDGET INCREASES.

THE IRS INCREASE OF $64 MILLION REFLECTS CONTINUED SUPPORT FOR ADP SYSTEMS MODERNIZATIONS IN TAX PROCESSING AND ENFORCEMENT ACTIVITIES THROUGH SUCH NEW INITIATIVES AS TAX SYSTEM REDESIGN, COMPUTER TERMINAL EXPANSIONS IN SERVICE CENTERS, A MAJOR INITIATIVE FOR AUTOMATING THE EXAMINATION PROCESS, AND OFFICE AUTOMATION. IRS ALSO PLANS CONTINUED FUNDING FOR THE SERVICE CENTER EQUIPMENT REPLACEMENT PROGRAM, AUTOMATED COLLECTION SYSTEM, OPTICAL CHARACTER RECOGNITION, AND DISTRIBUTED INPUT SYSTEM.

THE CUSTOMS SERVICE WILL EXPAND A NEW SYSTEM TO AUTOMATE ITS MAJOR COMMERCIAL PROCESSING PROCEDURES. THIS NEW SYSTEM, WHICH WILL INCLUDE AUTOMATED PROCESSING OF ENTRIES FROM THE TRADE COMMUNITY, WILL ELIMINATE REDUNDANCIES, REDUCE PAPER, AND ALLOW FOR BETTER SELECTIVITY IN THE CARGO REVIEW PROCESS. CUSTOMS IS REQUESTING $11.3 MILLION FOR THIS AND OTHER PROJECTS.

THE BUREAU OF GOVERNMENT FINANCIAL OPERATIONS WILL CONTINUE TO IMPROVE THE GOVERNMENT'S FISCAL SYSTEMS -- THE MEANS BY WHICH IT COLLECTS, MANAGES AND DISBURSES ITS FUNDS. THE BUREAU IS ASKING FOR $14.7 MILLION IN FISCAL YEAR 1985 TO CONTINUE ITS INTENSIVE EFFORTS TO UPGRADE BASIC FISCAL SYSTEMS. IN FISCAL YEAR 1985, THE BUREAU WILL COMPLETE THE CONVERSION FROM CARD TO PAPER CHECKS, EXPLORE ENHANCED MEANS TO COLLECT AND ACCOUNT FOR GOVERNMENT REVENUES, LAY THE GROUNDWORK FOR AN AUTOMATED SYSTEM TO MANAGE THE GOVERNMENT'S CASH, AND EXPAND THE EFFORTS TO ENSURE THAT THE GOVERNMENT'S BILLS ARE PAID ON TIME.

OUR SECOND OBJECTIVE CENTERS ON THE GROWING TAX GAP OF UNREPORTED AND REPORTED INCOME THAT HAS OCCURRED IN RECENT YEARS. WE ARE REQUESTING $52 MILLION AND 1,447 POSITIONS FOR THE INTERNAL REVENUE SERVICE TO CONTAIN THAT GROWTH BY MORE INTENSIVE AUDITS OF RETURNS IN THE NON-FARM BUSINESS AREA, ADDITIONAL FOLLOW-UP OF IDENTIFIED UNDER-REPORTER CASES, EXPANDING THE LITIGATION STAFF TO HANDLE APPEALED TAX CASES, AND BY ADDITIONAL RESEARCH TO INCLUDE DATA COLLECTION AND STUDIES IN AREAS OF NON-COMPLIANCE.

OUR THIRD OBJECTIVE REFLECTS IMPLEMENTATION OF THE INTEREST AND DIVIDEND TAX COMPLIANCE ACT. THIS LEGISLATION HAS IMPOSED MAJOR WORKLOAD DEMANDS ON THE IRS THROUGH A SYSTEM OF BACKUP WITHHOLDING (20 PERCENT) ON UNREPORTED INTEREST AND DIVIDEND INCOME AND INCORRECT TAXPAYER IDENTIFICATION NUMBERS. AN ADDITIONAL $12 MILLION AND 435 STAFF YEARS ARE REQUESTED TO HANDLE THESE NEW RESPONSIBILITIES.

THE FOURTH OBJECTIVE IN THE TREASURY BUDGET FOCUSES ON MAINTAINING EXISTING ENFORCEMENT ACTIVITIES IN THE SECRET SERVICE, CUSTOMS SERVICE, BUREAU OF ALCOHOL, TOBACCO AND FIREARMS, AND THE FEDERAL LAW ENFORCEMENT TRAINING CENTER. THESE ORGANIZATIONS WILL CONTINUE TO PROVIDE THE SAME LEVEL OF ENFORCEMENT AND TRAINING OPERATIONS IN 1985 AS IN 1984. AS YOU KNOW, 1984 WILL BE A BUSY YEAR FOR LAW ENFORCEMENT WITH THE SUMMER OLYMPICS AND PRESIDENTIAL CAMPAIGN PROTECTION. TO IMPROVE THE EFFECTIVENESS AND SECURITY OF THESE LAW ENFORCEMENT PERSONNEL, WE ARE REQUESTING AN INCREASE OF $17.2 MILLION FOR EQUIPMENT MODERNIZATION PRIMARILY IN THE AREA OF VOICE PRIVACY COMMUNICATIONS.

OUR FINAL OBJECTIVE CENTERS ON THE MAJOR IMPROVEMENTS MADE IN TREASURY BUREAUS IN FISCAL YEARS 1983 AND 1984, ALONG WITH ANTICIPATED IMPROVEMENTS IN FISCAL YEAR 1985, THAT HAVE RESULTED IN MAJOR PERSONNEL SAVINGS IN THE 1985 BUDGET. THESE CONSIST PRIMARILY OF SIGNIFICANT SAVINGS IN THE INTERNAL REVENUE SERVICE (4,561 POSITIONS), RESULTING FROM A VARIETY OF PRODUCTIVITY SAVINGS AND MANAGEMENT IMPROVEMENTS. INCLUDED ARE SAVINGS FROM IMPLEMENTATION OF THE NEW AUTOMATED COLLECTION SYSTEM (842 POSITIONS), IMPROVEMENTS IN PROCESSING TAX RETURNS (2,446 POSITIONS), AND STREAMLINING OF WORK PROCESSES (800 POSITIONS). THESE PRODUCTIVITY AND MANAGEMENT SAVINGS -- MANY OF WHICH RELATE TO PRIOR YEAR INVESTMENTS IN ADP AND SYSTEMS MODERNIZATIONS -- FOLLOW THROUGH ON OUR COMMITMENT TO IDENTIFY SAVINGS RESULTING FROM PRIOR BUDGET INCREASES APPROVED BY THE CONGRESS FOR THESE PROJECTS. EFFORTS HAVE BEEN MADE TO REDUCE LABOR-INTENSIVE OPERATIONS THROUGHOUT OUR BUREAUS THROUGH MAJOR CAPITAL INVESTMENTS TO MAKE AVAILABLE PERSONNEL FOR HIGH PRIORITY PROGRAMS IN THE DEPARTMENT.

AS PART OF OUR OVERALL EFFORTS TO MODERNIZE AND STREAMLINE OUR OPERATIONS, OUR BUDGET REFLECTS A REDUCTION OF $23.5 MILLION AND 954 STAFF YEARS FOR THE CUSTOMS SERVICE IN 1985 COMPARED TO 1984. SUBSTANTIAL SAVINGS WILL BE ACHIEVED THROUGH INCREASED AUTOMATION, ADMINISTRATIVE EFFICIENCIES, AND INCREASED SELECTIVITY AND FACILITATION. SPECIAL PROGRAMS SUCH AS "ACCEPT," "ONE-STOP," AND AN AUTOMATED IN-BOND SYSTEM INDICATE THAT INSPECTIONAL WORKLOAD CAN BE PROCESSED SELECTIVELY WITH MINIMAL EMPHASIS ON LOW RISK, LOW PRODUCTIVITY AREAS, WITH MAXIMUM EMPHASIS ON HIGH RISK, HIGH PRODUCTIVITY AREAS. THESE SAVINGS WILL BE REAL WITH MINIMUM IMPACT ON OUR DRUG INTERDICTION EFFORTS, THE PUBLIC, AND BUSINESS, AND ARE NOT AN EFFORT TO SAVE RESOURCES BY INCONVENIENCING THE PUBLIC WHOM WE SERVE. THEY WILL NOT ADVERSELY AFFECT CUSTOMS REVENUE COLLECTIONS OR REGULATORY RESPONSIBILITIES.

BEFORE LEAVING THE CUSTOMS SERVICE BUDGET DISCUSSIONS, I WOULD LIKE TO ADDRESS RECENT REPORTS WHICH HAVE APPEARED IN THE PRESS THAT ALLEGE FUNDS FOR CUSTOMS WERE TRANSFERRED TO THE OFFICE OF THE SECRETARY FOR THE PURCHASE OF DRAPES AND FURNITURE. THIS IS NOT TRUE. THE BUDGET LEVELS FOR THESE TWO BUREAUS WERE DEVELOPED CAREFULLY, SEPARATELY AND INDEPENDENTLY. THE INCREASES IN THE

OFFICE OF THE SECRETARY ARE FOR ENHANCEMENTS TO OUR TELECOMMUNICATIONS AND TELEPHONES SYSTEMS, AUTOMATED DATA PROCESSING IMPROVEMENTS, AND RENOVATION OF THE TREASURY ANNEX BUILDING, A 1919 NEO-CLASSICAL BUILDING DIRECTLY ACROSS PENNSYLVANIA AVENUE FROM THE MAIN TREASURY BUILDING. THIS RENOVATION REQUIRES GUTTING THE BUILDING, REPLACING ANTIQUATED ELECTRICAL AND PLUMBING SYSTEMS, AND REPLACING WINDOWS.

I WOULD ALSO LIKE TO STRESS WITH RESPECT TO THE CUSTOMS AIR PROGRAM, THAT THIS PROGRAM REFLECTS AN INCREASED EFFORT COMPARED WITH 1984. AS THE COMMITTEE IS AWARE, THE DEPARTMENT OF DEFENSE HAS RECENTLY LOANED AIRCRAFT, RADAR, AND EQUIPMENT TO CUSTOMS. SINCE THE DEPARTMENT OF DEFENSE REQUIRES THAT THE EQUIPMENT BE MAINTAINED TO THEIR STANDARDS, READY FOR RETURN IN 72 HOURS NOTICE SHOULD CONDITIONS REQUIRE IT, WE BELIEVE THAT THE DEPARTMENT OF DEFENSE CAN BETTER PROVIDE THE NECESSARY MAINTENANCE SUPPORT AND EXPERTISE. I HAVE, THEREFORE, ASKED SECRETARY WEINBERGER TO PROVIDE $11 MILLION FOR MAINTENANCE, FUEL, AND OTHER SUPPORT COSTS. THIS MATTER SHOULD BE RESOLVED IN THE NEAR FUTURE.

IN ADDITION TO THE MAJOR OBJECTIVES DISCUSSED ABOVE, THE UNITED STATES MINT AND THE BUREAU OF ENGRAVING AND PRINTING WILL BE ABLE TO MEET THE NATION'S NEEDS FOR COIN AND CURRENCY IN FISCAL YEAR 1985 THROUGH NECESSARY PRODUCTION AND THE USE OF INVENTORIES. THE MINT WILL PRODUCE 19.1 BILLION COINS IN FISCAL YEAR 1985 AND ENGRAVING AND PRINTING WILL PRODUCE 6 BILLION PIECES OF CURRENCY AND 34.8 BILLION STAMPS.

THE FISCAL SERVICE -- COMPRISING THE BUREAU OF GOVERNMENT FINANCIAL OPERATIONS AND BUREAU OF THE PUBLIC DEBT -- WILL MEET ALL DEMANDS FOR ISSUING CHECKS AND SERVICING THE NATION'S DEBT REQUIREMENTS. BGFO WILL MAKE OVER 718 MILLION PAYMENTS WHILE PUBLIC DEBT WILL ISSUE AND REDEEM 176 MILLION SAVINGS-TYPE SECURITIES IN 1985.

IN SUMMARY, IN TERMS OF THE MAJOR OVERALL CHANGES TO THE BUDGET, WE ARE SEEKING:

-- $183 MILLION FOR PROGRAM ENHANCEMENTS, RELATED PRIMARILY TO THE INITIATIVES FOR SYSTEMS MODERNIZATION AND EQUIPMENT, REDUCTION OF THE TAX GAP, AND IMPLEMENTATION OF THE INTEREST AND DIVIDEND TAX COMPLIANCE ACT OF 1983;

- \$80 MILLION FOR INCREASED WORKLOAD, PRIMARILY FOR ADDITIONAL TAX PROCESSING;
- \$246 MILLION FOR PRICE INCREASES IN SUCH AREAS AS COMMUNICATIONS, UTILITIES, OFFICE SPACE AND TRAVEL; AND
- OFFSETS OF \$109 MILLION IN PROGRAM REDUCTIONS, \$87 MILLION IN PRODUCTIVITY AND MANAGEMENT SAVINGS, AND \$134 MILLION IN OTHER ONE-TIME COST SAVINGS. THESE OFFSETS AFFECT PRIMARILY THE INTERNAL REVENUE SERVICE AND THE CUSTOMS SERVICE.

APPROPRIATION LANGUAGE PROPOSALS

INCLUDED IN OUR APPROPRIATIONS LANGUAGE IS ONE ITEM I WOULD LIKE TO HIGHLIGHT.

WE ARE REQUESTING AUTHORITY TO PERMIT THE TRANSFER OF UP TO 2 PERCENT OF ANY APPROPRIATION TO ANOTHER APPROPRIATION. THIS AUTHORITY WOULD PROVIDE US THE NEEDED FLEXIBILITY TO REALIGN FUNDING AMONG OUR BUREAUS WHEN CONTIGENCIES DEVELOP THAT WERE NOT PROVIDED FOR IN THE BUDGET.

FISCAL YEAR 1984 SUPPLEMENTALS

OUR BUDGET ALSO REQUESTS \$79 MILLION IN FISCAL YEAR 1984 SUPPLEMENTAL FUNDING. THE MAJOR ITEM IS \$78 MILLION FOR PAY COST INCREASES THAT HAVE BEEN PUT INTO EFFECT. THESE INCREASED PAY REQUIREMENTS ARE NEEDED BY SIX TREASURY BUREAUS AND COVER THE 3.5 PERCENT RAISES EFFECTIVE IN JANUARY OF THIS YEAR. IN ADDITION, \$1 MILLION IS REQUESTED FOR THE BUREAU OF GOVERNMENT FINANCIAL OPERATIONS TO LIQUIDATE THE POSTAL SAVINGS SYSTEM.

MR. CHAIRMAN, THAT SUMMARIZES THE MAJOR PROPOSALS OF THE TREASURY DEPARTMENT. I WOULD LIKE TO INSERT FOR THE RECORD A TABLE DETAILING OUR REQUEST BY ACCOUNT. I SHALL BE HAPPY TO ANSWER ANY QUESTIONS THAT THE SUBCOMMITTEE MAY HAVE.

DEPARTMENT OF THE TREASURY
Summary of Budget Estimates for FY 1985
(Dollars in Thousands)

TREASURY SUBCOMMITTEE	FY 1983 APPROP.		FY 1984 LEVEL		FY 1985 ESTIMATE		TOTAL CHANGES		PROGRAM CHANGES		OTHER CHANGES	
	AVG. POS.	AMOUNT	AVG. POS.	AMOUNT	AVG. POS.	AMOUNT	AVG. POS.	AMOUNT	AVG. POS.	AMOUNT	AVG. POS.	AMOUNT
OFFICE OF THE SECRETARY	1115	62409	1225	67152	1225	84242	0	17090	0	14549	0	2541
FED LAW ENFRC TRNG CNTR	225	12803	243	14664	243	16964	0	2300	0	1562	0	738
GOV'T FINANCIAL OPERATIONS:												
SALARIES AND EXPENSES	2424	243946	2493	239995	2327	239908	-166	-87	0	20261	-166	-20348
POSTAL SAVINGS LIQUIDATION	0	0	0	1000	0	0	0	-1000	0	0	0	-1000
SUBTOTAL, GFO	2424	243946	2493	240995	2327	239908	-166	-1087	0	20261	-166	-21348
ALCOHOL, TOBACCO AND FIREARMS	2780	147492	2920	159553	2777	161771	-143	2218	0	3000	-143	-782
CUSTOMS SERVICE:												
SALARIES AND EXPENSES	12933	571317	13323	594904	12369	585335	-954	-9569	0	16994	-954	-26563
AIRCRAFT OPS AND MAINT	0	3750	0	31000	0	17070	0	-13930	0	0	0	-13930
SUBTOTAL, CUSTOMS SERVICE	12933	575067	13323	625904	12369	602405	-954	-23499	0	16994	-954	-40493
MINT:												
SALARIES AND EXPENSES	1211	47558	1135	49000	1078	47758	-57	-1242	0	0	-57	-1242
EXPANSION AND IMPROVEMENTS	0	5200	0	3070	0	0	0	-3070	0	-3070	0	0
SUBTOTAL, MINT	1211	52758	1135	52070	1078	47758	-57	-4312	0	-3070	-57	-1242
ADMINISTERING THE PUBLIC DEBT	2368	199934	2432	196427	2319	197955	-113	1528	0	3228	-113	-1700
INTERNAL REVENUE SERVICE:												
SALARIES AND EXPENSES	2969	130686	2271	101494	2243	104687	-28	3193	2	1644	-30	1549
PROCESSING RETURNS	24702	968619	24297	942150	23187	1002457	-1110	60307	1758	102942	-2868	-42635
EXAMINATIONS	30315	1088305	34393	1258310	35354	1357073	961	98763	1380	62047	-419	36716
INVESTIG. AND COLLECTIONS	25617	855402	28321	1023676	27595	1067642	-726	43966	417	24266	-1143	19700
SUBTOTAL, IRS	83603	3043012	89282	3325630	88379	3531859	-903	206229	3557	190899	-4460	15330
PAYMENT WHERE ENERGY CREDIT EXCEEDS LIABILITY FOR TAX	0	300	0	200	0	100	0	-100	0	0	0	-100
SECRET SERVICE	3817	240462	4175	297729	4054	275731	-121	-21998	0	12096	-121	-34094
SUBTOTAL, TREASURY SUBCOM.	110476	4578183	117228	4980324	114771	5158693	-2457	178369	3557	259519	-6014	-81150
HUD-INDEPENDENT AGENCIES												
OFFICE OF REVENUE SHARING	129	7267	132	7428	132	7941	0	513	0	250	0	263
NYC SEASONAL LOAN ADMIN	0	0	0	0	0	0	0	0	0	0	0	0
SUBTOTAL, HUD-INDEP. AGEN.	129	7267	132	7428	132	7941	0	513	0	250	0	263
STATE, JUDICIARY & COMMERCE												
CHRYSLER LOAN GUARANTEE	11	1211	10	495	0	0	-10	-495	-10	-495	0	0
NONAPPROPRIATED ACCOUNTS												
ENGRAVING AND PRINTING	2330	0	2362	0	2323	0	-39	0	-22	0	-17	0
COMPTROLLER OF THE CURRENCY	2846	0	2900	0	2810	0	-90	0	0	0	-90	0
SUBTOTAL, NONAPPROP. ACNTS.	5176	0	5262	0	5133	0	-129	0	-22	0	-107	0
TOTAL, NON-OPERATING ACCOUNTS	2743	112487705	2894	132862079	2486	144537522	-408	11675443	0	0	-408	11675443
GRAND TOTAL, TREASURY	118535	117074366	125526	137850326	122522	149704156	-3004	11853830	3525	259274	-6529	11594556

BUDGET REQUEST

Secretary REGAN. Thank you Mr. Chairman, and members of the subcommittee, and Senator Chiles.

I am here today to discuss the Department of the Treasury's operating budget request for fiscal year 1985.

The budget that we are presenting today will enable us to continue to carry out in fiscal year 1985 those essential functions with which the Department is entrusted. Specifically, we will collect over $745 billion in Federal revenues and administer the Nation's tax laws. We will manage the fiscal affairs of the Government, paying its bills and financing the Nation's public debt. We will manufacture the Nation's currency and coin, and help regulate our country's financial institutions.

We will process passengers and cargo coming into the country, enforcing import and export laws at over 300 ports of entry.

We will protect the President, the Vice President, as well as other dignitaries. At the same time, we will continue to advise the President on monetary, fiscal, and both domestic and international economic policy.

To carry out these functions, we are requesting a budget of $5.2 billion and 114,771 average positions in fiscal 1985 for our appropriated bureaus. This represents an increase of $178 million, and a decrease of 2,457 average positions, compared to fiscal year 1984 levels, which include pending pay supplemental requests totaling $78 million and a program supplemental of $1 million.

I should note that the increase in funding is 3.4 percent below the 1985 estimated inflation levels of 4.8 percent, and, therefore, is a decrease in real terms.

BUDGET OBJECTIVES

Our fiscal year 1985 budget will achieve five major objectives.

First, we will expand modernization activities in the Internal Revenue Service, U.S. Customs Service, Bureau of Government Financial Operations, Bureau of the Public Debt, and Office of the Secretary.

Second, wewill strenghten tax enforcement in the Internal Revenue Service through enhancement of the examination, litigation, information returns, and research programs with the objective of containing the recent growth in the tax gap related to unreported income.

Third, we will implement the Interest and Dividend Tax Compliance Act of 1983 in the Internal Revenue Service for the backup withholding system.

Fourth, we will maintain our law enforcement activities with particular emphasis on modernization of selected equipment.

Fifth, we will achieve major savings in personnel and costs in Treasury bureaus from automated systems and greater efficiencies.

BUDGET HIGHLIGHTS

I would like to highlight these initiatives. Treasury witnesses in hearings before the subcommittee will provide details of these proposals.

In the area of modernization, which I consider to be one of my most important objectives, we are requesting an increase of $102 million for improvements in the automated systems and other nonpersonnel intensive processes so as to relieve future pressures for growth in personnel.

As you know, with the subcommittee's support, we have established a new position of Assistant Secretary for Electronic Systems and Information Technology to insure that these modernization efforts receive top policy level review and attention. This modernization request represents 20 percent of the Department's budget increases.

The IRS increase of $64 million reflects continued support for ADP systems modernizations in tax processing and enforcement activities through such new initiatives as tax system redesign, computer terminal expansions in service centers, a major initiative for automating the examination process, and office automation.

IRS also plans continued funding for the service center equipment replacement program, automated collection system, optical character recognition, and distributed input system.

The Customs Service will expand a new system to automate its major commercial processing procedures. This new system, which will include automated processing of entries from the trade community, will eliminate redundancies, reduce paper, and allow for better selectivity in the cargo review process. Customs is requesting $11.3 million for this and other projects.

The Bureau of Government Financial Operations will continue to improve the Government's fiscal systems, the means by which it collects, manages, and disburses its funds. The Bureau is asking for $14.7 million in fiscal year 1985 to continue its intensive efforts to upgrade basic fiscal systems.

In fiscal year 1985, the Bureau will complete the conversion from card to paper checks, explore enhanced means to collect and account for Government revenues, lay the groundwork for an automated system to manage the Government's cash, and expand the efforts to insure that the Government's bills are paid on time.

Our second objective centers on the growing tax gap of unreported and reported income that has occurred in recent years. We are requesting $52 million and 1,447 positions for the Internal Revenue Service to contain that growth by more intensive audits of returns in the nonfarm business area, additional followup of identified underreported cases, expanding the litigation staff to handle appealed tax cases, and by additional research to include data collection and study in areas of noncompliance.

Our third objective reflects implementation of the Interest and Dividend Tax Compliance Act. This legislation has imposed major workload demands on the IRS through a system of backup withholding of 20 percent on unreported interest and dividend income and incorrect taxpayer identification numbers. An additional $12 million and 435 staff-years are requested to handle these new responsibilities.

The fourth objective in the Treasury budget focuses on maintaining existing enforcement activities in the Secret Service, Customs Service, Bureau of Alcohol, Tobacco and Firearms, and the Federal Law Enforcement Training Center. These organizations will continue to provide the same level of enforcement and training operations in 1985 as in 1984.

As you know, 1984 will be a busy year for law enforcement with the summer Olympics and Presidential campaign protection. To improve the effectiveness and security of these law enforcement personnel, we are requesting an increase of $17.2 million for equipment modernization primarily in the area of voice privacy communications.

Our final objective centers on the major improvements made in Treasury bureaus in fiscal years 1983 and 1984, along with anticipated improvements in fiscal year 1985, that have resulted in major personnel savings in the 1985 budget.

These consist primarily of significant savings in the Internal Revenue Service—4,561 positions—resulting from a variety of productivity savings and management improvements. Included are savings from implementation of the new automated collection system—842 position—improvements in processing tax returns—2,446 positions—and streamlining of work processes—800 positions.

These productivity and management savings, many of which relate to prior-year investments in ADP and systems modernizations, follow through on our commitment to identify savings resulting from prior budget increases approved by the Congress for those projects. Efforts have been made to reduce labor-intensive operations throughout our bureaus through major capital investments to make available personnel for high-priority programs in the Department.

As part of our overall efforts to modernize and streamline our operations, our budget reflects a reduction of $23.5 million and 954 staff-years for the Customs Service in 1985 compared with 1984. Substantial savings will be achieved through increased automation, administrative efficiences, and increased selectivity and facilitation.

Special programs such as "Accept," "One-Stop," and an automated in-bond system indicate that inspectional workload can be processed selectively with minimal emphasis on low-risk, low-productivity areas, with maximum emphasis on high-risk, high-priority areas.

These savings will be real with minimum impact on our drug interdiction efforts, the public and business, and are not an effort to save resources by inconveniencing the public whom we serve. They will not adversely affect Customs revenue collections or regulatory responsibilities.

Before leaving the Customs Service budget discussions, I would like to address, Mr. Chairman, recent reports, to which Senator DeConcini alluded, which have appeared in the press that allege that funds for

Customs were transferred to the Office of the Secretary for the purchase of drapes and furniture. This is not true.

The budget levels for those two bureaus were developed carefully, separately, and independently. The increases in the Office of the Secretary are for enhancements to our telecommunications and telephone systems, automated data processing improvements, and renovation of the Treasury Annex Building, a 1919 neo-classical building directly across Pennsylvania Avenue from the main Treasury Building. This renovation requires gutting the building, replacing antiquated electrical and plumbing systems, and replacing windows.

This renovation will allow the consolidation of several Treasury offices, resulting in lease savings and better operations.

I would also like to stress with respect to the Customs air program, that this program reflects an increased effort compared with 1984, because several planes and radar equipment will come online in mid-1984, and 1985 will be the first full year of operation.

As the committee is aware, the Department of Defense has recently loaned aircraft, radar, and equipment to Customs. Since the Department of Defense requires that the equipment be maintained to their standards, ready for return in 72 hours' notice should conditions require it, we believe that the Department of Defense can better provide the necessary maintenance support and expertise. I have, therefore, asked Secretary Weinberger to provide $11 million for maintenance, fuel, and other support costs. This matter should be resolved in the near future.

If reimbursement is not forthcoming, we will try to identify moneys within Treasury's request to fund this cost.

In addition to the major objectives discussed above, the U.S. Mint and the Bureau of Engraving and Printing will be able to meet the Nation's needs for coin and currency in fiscal year 1985 through necessary production and the use of inventories. The mint will produce 19.1 billion coins in fiscal year 1985, and engraving and printing will produce 6 billion pieces of currency and 34.8 billion stamps.

The fiscal service, comprising the Bureau of Government Financial Operations and Bureau of the Public Debt, will meet all demands for issuing checks and servicing the Nation's debt requirements. BGFO will make over 718 million payments while public debt will issue and redeem 176 million savings-type securities in 1985.

BUDGET SUMMARY

In summary, in terms of the major overall changes to the budget, we are seeking: $183 million for program enhancements related primarily to the initiatives for systems modernization and equipment, reduction of the tax gap, the implementation of the Interest and Dividend Tax Compliance Act of 1983; $80 million for increased workload, primarily for additional tax processing; $246 million for the price increases in such areas as communications, utilities, office space, and travel; and offsets of $109 million in program reductions, $87 million in productivity and management savings, and $134 million in other one-time cost savings.

These offsets affect primarily the Internal Revenue Service and the Customs Service.

APPROPRIATION LANGUAGE PROPOSALS

Included in our appropriations language, Mr. Chairman, is one item I would like to highlight.

We are requesting authority to permit the transfer of up to 2 percent of any appropriation to another appropriation. This authority would provide us the needed flexibility to realign funding among our bureaus when contingencies develop that were not provided for in the budget.

FISCAL YEAR 1984 SUPPLEMENTALS

Our budget also requests $79 million in fiscal year 1984 for supplemental funding. The major item is $78 million for pay cost increases that have been put into effect. These increased pay requirements are needed by six Treasury bureaus and cover the 3.5 percent raises effective in January of this year. In addition, $1 million is requested for the Bureau of Government Financial Operations to liquidate the postal savings system.

Mr. Chairman, that summarizes the major proposals of the Treasury Department. I would like to insert for the record a table detailing our request by account. I shall be very happy to answer any questions that the subcommittee may have.

CUSTOMS PERSONNEL REDUCTION

Senator ABDNOR. Thank you. Your table has been made part of the record, along with your statement.

The greatest concern this committee has is the subject that has already been addressed, the subject of Customs. Of course, we certainly do have great interest in many other areas as well, but this is where we find the most glaring—what we feel could be—mistake, and I would just like to address that subject for a moment.

I just don't agree, Mr. Secretary, with your budget for Customs. I think I speak for an awful lot of the Members of Congress because the Members, knowing that I have this particular section under my subcommittee, have come out and have spoken to me about it.

I recall last year, Mr. Secretary, I think your request was to reduce personnel by 2,000 employees and, as you know, we went through that very carefully and, at least as far as the committee was concerned, and the Congress, we restored 1,600 of those positions.

Now, we find ourselves going through this same exercise again. I read in the paper that they said that you folks, and I am not saying that it is true at all, but they suggest that, you know, this is one we don't let loose of, so if you are going to have money added, this is a good place to do it, and cut someplace else. That has been brought to our attention.

But I would like not to have to go through this exercise every time. I am not a big spender. I think that I am considered somewhat of a conservative. But the war on drugs causes me great concern.

One of the few trips I have ever taken in Congress was over to Asia to look at some of the countries where our drug problems originate from, and I am gravely concerned. And then I think, you know, last year we restored 1,600 of the 2,000 positions that you requested be cut. This year, you are suggesting 952 employee reductions. We are going to transfer—in that net transfer—we are going to lose about 282 altogether. You start adding that to this number, and we are coming very close again to where we were last year.

So that does give me some concern.

Now, let me ask you this, Mr. Secretary: My question is: Was the amount that you finally submitted for the entire Treasury budget lower than existed before that time when the President asked you to go back and make further cuts?

Secretary REGAN. Yes; it is, Mr. Chairman.

FUNDS FROM DOD

Senator ABDNOR. You did make considerably lower cuts, as I remember. Now, even with that in mind—and you addressed this briefly—I read some of this in the paper like everyone else. I don't know how accurate it is, but somewhere along the line I read where the Secretary of Defense said they would not pick up this 11 million dollars' worth of costs, and I don't mind saying that I, along with Senator DeConcini particularly, put pressure on to get the extra planes for this purpose. I recall that was one of the things that the Defense Department told us specifically, that if they let us use those planes they didn't want us to come back to try to bill them. I for one said, "Don't worry. We won't do that to you." Maybe I spoke out of turn.

Now, if they still insist they are not going to pick up that $11 million, and I get to thinking about your suggesting that we are going to make the airlines pick up overtime at the Customs, I think, and that is a probable thing, a very "iffy" thing. I don't know whether it is going to come about or not, and if you were able to get us to reduce the number of employees, I suggest we are going to have RIF costs. I don't see those here in the budget.

How are we going to take on some of these things that occur, if we let the employees go, if the $11 million doesn't come from the Defense Department, if we aren't able to get the airlines to pick up the extra overtime costs, what do we do?

CUSTOMS PERSONNEL REDUCTIONS

Secretary REGAN. Well, Mr. Chairman, let's handle those in three segments. Let's talk about the reduction, the 954 average positions.

First of all, for the record, Mr. Chairman, there are no reductions in the work force of 1,246 Customs patrol officers, nor 932 Customs agents who are involved in frontline narcotics interdictions. Let me repeat that: There is no reduction in our budget in the 1,246 Customs patrol officers or 932 Customs agents who are involved in frontline narcotics interdiction.

The 954 positions referred to in my statement and in the budget, of that number 57 percent, or 544 positions, are being taken in other than frontline narcotics interdiction positions, 63 clerical, 42 marine officers, 167 import specialists, 179 regional and district employees, 93 headquarters—in other words, mainly back-office personnel.

The remaining 43 percent, 410 positions, are inspector positions, not Customs patrol officers, not Customs agents. Inspectors related to new cargo processing procedures and automation which you previously had agreed to fund in the years 1982, 1983, and 1984, are now coming on line. This enables us to cut back. That was part of the justification we asked for in the budget in those years in order to get this. Now, we are putting that into effect.

So, once we do that, I can assure you, though, that there will be no reduction in inspectors related to special enforcement teams. There will be no cuts to inspectors involved in primary inspections, but rather in those areas where there has been a minimum, if any, narcotics problem, and those cuts will be taken primarily in the area of cargo processing.

I will pause there and see if you have any question on that one, and then we will turn to the air program.

Senator ABDNOR. How many are we talking about, inspectors?

Secretary REGAN. Inspectors?

Senator ABDNOR. Yes.

Secretary REGAN. We are talking about 410 positions.

CUSTOMS ARRESTS

Senator ABDNOR. None of those inspectors had anything to do with 70 percent of all the Customs arrests, the 28 percent of the morphine and opium seizures, the 57 percent of the heroin seizures, the 59 percent of the cocaine seizures, the 70 percent of the hashish seizures, 80 percent of the marijuana seizures, 84 percent of the monetary instrument seizures—the currency—62 percent of the weapons seizures?

That was compiled all by inspectors. Now we are not going to have any of these 400 or 500, whatever it is, who are going to be any part of that, is that right?

Secretary REGAN. But you see, what we are doing, we are talking selectivity. There has been an enormous amount of imports into the United States. As you know, we have the largest trade deficit in our history. That means imports are at a high.

The majority of that cargo coming in does not contain narcotics. Something coming in from, for example, Japan into the United States? Well, since this is close to St. Patrick's Day, let's take Ireland. You wouldn't suspect narcotics necessarily coming in from there in furniture or something of that nature. It is low-risk cargo. That is what we are automating. That is where we don't need inspectors.

Senator ABDNOR. That is fine. That is the next place those guys will go to. They are cagey people. They bounce around. You get tough with them in Florida, and they go to New York.

Secretary REGAN. You have got to remember that they have to get into those countries first in order to get it into here. We are not playing games here. We are playing for keeps. We do randomly inspect that cargo, but by automating this process, we cut back on paperwork, reducing the clerks and inspectors needed for the bulk cargo.

Where you do need inspectors is in the high-risk areas, specifically for cargo coming in from high-risk countries, and that is where we are concentrating our forces, and that is what is responsible for those good statistics that you just read.

Senator ABDNOR. I will move to these other people over here. I am going to keep a little bit of the 5-minute rule here. Did we get all of it covered?

Secretary REGAN. We didn't get to our air program, but I dare say Senator DeConcini may want to discuss it.

BUDGET APPEAL TO OMB

Senator DECONCINI. Thank you, Mr. Chairman. I will keep it to 5 minutes, with an opportunity to come back the second time, because I know the Senator from Florida wants to question.

Mr. Secretary, you and your staff have repeatedly said that there is absolutely no relationship funding requested for the IRS, your Office of the Secretary's account, and other Treasury programs, and the cuts in the Customs budget.

Members of your staff told us again as late as yesterday afternoon that you would never do that, that you consider each item on its own merits and that there was no attempt to offset program increases for your shop or other bureaus with cuts in Customs.

I must give you credit, Mr. Secretary, that remarks about drapes and carpets are unfair, because that has never been in your budget, and I want to be sure that I have not and will not accuse you of carpets and drapes, because I know better.

I have in my hand a letter dated December 8, 1983, from the Deputy Secretary of the Treasury, Mr. Tim McNamar to Mr. Dave Stockman. It is an appeal to OMB appealing, among other things, the restoration of $95.5 million and 420 positions for IRS, $8 million and 109 positions for the Bureau of Government Financing Operations, and $11.1 million and 98 positions for the Office of the Secretary funds and positions that were cut by OMB during your passback.

Here is what McNamar offered to OMB Director Stockman. Let me quote it:

> Included in our total appeal is a reduction for the U.S. Customs Service of $26.9 million below the prior year level. This appeal represents a significant revision to Treasury's original request and is a reduction of $34.7 million below the OMB mark. Greater selectivity in our passenger and cargo processing system, as well as implementation of a number of administration and management efficiencies will enable us to achieve such savings without any significant diminution in our law enforcement efforts. Furthermore, this proposal will help offset other items being appealed.

Now, how do you reconcile your staunch, unequivocal stand that you are not using Customs cuts to offset increases in your budget for Treasury programs, with the Deputy's letter such as that?

Secretary Regan. I believe, and I haven't checked this thoroughly with Mr. McNamar, but I would be willing to do that for the record.

But I believe that letter and that paragraph referred to the entire Customs Service budget. With regard to other items being appealed, he is probably referring to other Customs items being appealed, not necessarily IRS things being appealed, or BGFO being appealed, or even Office of the Secretary being appealed. He is talking about other Customs items, because he goes on to say in the final sentence, which you didn't quote, that, "As noted in the mark," and the mark there refers to the Customs mark, "consideration of the border consolidation program is not reflected in the appeal level."

So he is referring in that paragraph specifically to the Customs Service.

Senator DeConcini. Well, Mr. Secretary, it says on page 2 of his letter, and I realize I quoted out of context the last paragraph there, it says, "Furthermore, this proposal will help offset other items being appealed, will enable the Department to meet the personnel ceilings being recommended in our allowance, as noted in the mark consideration of the border consolidation proposals."

So I think he is referring to the ceiling of all the Treasury, is he not?

Secretary Regan. No; I don't believe so, Mr. Chairman, but I will have a clarification for the record.

[Simultaneous speaking.]

Senator DeConcini. That would be helpful.

Secretary Regan. Because I believe there he is specifically referring—you see, in the paragraph prior to that he is talking about IRS. Now, he comes to Customs, and he is specifically referring to Customs.

Then he goes on to the Federal Law Enforcement Training Center, the Bureau of Alcohol, Tobacco—each is a separate, stand-alone paragraph.

Senator DeConcini. Well, you didn't—excuse me, Mr. Secretary—you didn't appeal any offset on Customs, did you?

Secretary Regan. Oh, yes, we did. There were several items in there, minor items to be sure, but nevertheless there were——

Senator DeConcini. Mr. Secretary, Mr. Chairman, to be fair to you, I have the letter, and I have had a chance to read it. You, perhaps, haven't. I would be most appreciative if you would explain it to us, either now or whenever you care to do so. It is clear to me by Mr. McNamar's letter, assuming he had your approval, that, indeed, what has happened you have cut Customs, including drug interdiction at the expense of doing something about remodeling and changing the Treasury Office Building across the street.

Secretary Regan. No; that is absolutely untrue. Mr. Chairman, I did not do that.

Senator DeConcini. Mr. Chairman, I will let the record stand right here, and I welcome an opportunity of having the Secretary correct that.

I will be glad to yield to the Senator from Florida, and then I do have some other questions.

TREASURY CUTS TO CUSTOMS BUDGET

Senator CHILES. Thank you.

Just to follow that same line of questioning, in fact, Treasury cut Customs more than OMB recommended?

Secretary REGAN. That's absolutely correct, and that is within my prerogative to do. I am the boss there. I am charged with the responsibility, and I do that.

Senator CHILES. I understand that. Mr. Secretary——

[Simultaneous speaking.]

Secretary REGAN. Are you suggesting there is something wrong with that?

Senator CHILES. No, sir. I want to know if you cut Customs more than OMB recommended——

Secretary REGAN. Yes; I already answered that.

Senator CHILES. No; you didn't let me finish. You didn't quite let me finish.

When did you do that? Did you do that when you first submitted your numbers to OMB, or did you do that after OMB came back with their proposed cuts?

Secretary Regan. After OMB came back with their proposed cuts, because the President called us all in and suggested that we all take another look at our budgets, and that is when I did it.

Senator CHILES. All right. So, if you cut them afterwards, then that was after OMB had proposed that you cut these other numbers, and you are appealing those other numbers. You are pointing out, "Look, we are going to cut Customs more than you asked us to cut." Now, that certainly seems to come back in line with what we are saying, why did Customs get cut at the expense of the other parts of the Department, including modernization, including the items for your own office—for your own Department—account, and I am not saying drapes or anything like that, but those items?

OFFICE OF THE SECRETARY BUDGET

Secretary REGAN. Well, first of all, let's understand what is included under the Office of the Secretary. The Office of the Secretary consists of 1,225 people. It has had that title since the days of Alexander Hamilton.

It does not refer to space that I occupy personally. I have 600 square feet, and one person in it. That's me. The Office of the Secretary consists of the Office for Tax Policy, the Economic Policy, the Under Secretary for Monetary Affairs, the Assistant Secretary for International Affairs, the Administrative Assistant Secretary, and the like. They are all part of the Office of the Secretary.

And that line in the budget, that has been there now for some 200 years, refers to all these endeavors. That is why it includes our asking for a new computer, in part for economic policy, and for tax policy to come up with their estimates of tax consequences of certain actions. We use the Treasury Annex Building across the street from main Treasury, which we are gutting, where BGFO now is, in order to reassemble BGFO in other buildings.

That's what all that is about.

BUDGET APPEAL TO OMB

Now, as far as Customs and the McNamar letter, again, Mr. Chairman, I am going to have to answer Senator Chiles, and I apologize for this, Senator, for not having all the details. I didn't know this would come up in this session. I want to go back and find out the sequence of dates.

This McNamar letter is dated December 8, and I want to follow for you our original submission date, passback date, the McNamar letter date, the further cuts in the budget, and I think by that sequence we can get at the answers to the questions, sir, that you have submitted to me.

Senator Chiles. All right. You know——

Senator Abdnor. Would you yield a second?

Will you put the numbers of employees as you go through that sequence, too?

Secretary Regan. Sure.

Senator Chiles. Mr. Secretary, all these things are within your prerogative, but I think it is also within our prerogative to ask——

Secretary Regan. Oh, sure, I am not denying——

PRIORITY OF AIR PROGRAM

Senator Chiles. Especially after the submission of the budget, after OMB has proposed cuts, and then you go back and say, "Well, we now want to cut Customs $34 million more than we originally submitted to you, and we are seeking some add-ons to this." What we want to know on these other items is, how is it that modernization and all these important functions of your office, is the Department of the Treasury saying that they are more important than air interdiction?

WAR ON CRIME

If they are, then we want to know about it, because the President is saying that the war on crime, and the war to try to fight drugs has a major emphasis in this administration.

Now, we are entitled to know, you know, where that emphasis—whether that just goes through the White House, or whether that goes through the rest.

I helped the administration make an announcement of a new task force that was going to go into south Florida. That was a total of $6 or $8 million that we are talking about. That was for new prosecutors, for new investigators, it was additional U.S. attorneys and technical personnel to prosecute cases—all of that addition.

It was well received, I can tell you, in south Florida, very popular, something that we desperately needed. All of that was going to make cases that are coming from the air interdiction program. So if you give us $6 or $8 million on one hand and you turn around and cut $13 million on the other hand, and then cut the marine program by 32 percent, $640,000, we want to know how we got help.

You know, we don't need new prosecutors if we are not going to be able to make cases. We don't need new investigators if you have cut the interdiction program that is going to be out there, and we want to know, does this administration sort of know what it is doing? Does the right hand know what the left hand is doing?

We passed in the Congress a provision trying to call for a czar to coordinate these activities. The President vetoed that, because he said that wasn't necessary.

AIR INTERDICTION PROGRAM

Yet, we find that on the one hand the President and the Vice President make announcements, and I helped them make them. I really liked that, that additional money—and then we see the Secretary of the Treasury cuts the air interdiction program 45 percent off of the baseline for 1 year ago.

Then we see in this morning's paper, Vice President George Bush gave his personal assurance Wednesday that the U.S. Customs surveillance aircraft in south Florida would continue operating, even though the Pentagon said it would not pick up the cost.

To quote the Vice President, and this was quoting Congressman Shaw, "We're going to keep the planes flying,' said Shaw, a Fort Lauderdale Republican. He realizes they are just too important in the area of drug smuggling, they are the backbone of the effort."

Now, the Vice President has said that yesterday. What do we hear from the Secretary of the Treasury today?

Secretary REGAN. The planes will keep flying, and we will have more planes in the air in 1985 than we had in 1984, and more in 1984 than we had in 1983.

Now, Senator——

Senator CHILES. Then you have found a way to restore this money?

Secretary REGAN. No; let's go through it, Senator.

What you are referring to is $11 million——

Senator CHILES. Is $17 million going to keep the new planes flying?

Secretary REGAN. Mr. Chairman, may I go through this?

Senator ABDNOR. Yes; let him go—yes.

Secretary REGAN. All right. The present air program calls for 62 aircraft, including four Blackhawks, four Cobra helicopters, excludes the P3A and four Citations.

Now, that is $19.2 million. Aircraft prior to 1985—we are adding some later this year, in June—we are coming up with the maintenance and operation of one P-3 aircraft. That will be $23.8 million, up from $19 million, now, to $23 million.

We will be operating in fiscal year 1985 at a $28 million level. That means that we will have four additional high-performance aircraft going in there.

The only thing that has changed is how do you fund that amount of money. I submit, $28 million, is a lot more than $17 million, which is the current figure.

We came up with the idea——

Senator CHILES. Thirty-one is more than seventeen, too.

Secretary REGAN. Obviously, but what's that got to do with it?

Senator CHILES. Well, that is what you got last year——

Secretary REGAN. All right. I am telling you how——

[Simultaneous speaking.]

Secretary REGAN. Take $17 million and add $11 million to it. What do you get? And then add another $11 million.

Senator CHILES. Where did the $11 million come from?

Secretary REGAN. Pardon?

Senator CHILES. Where did the $11 million come from?

FUNDS FROM DOD

Secretary REGAN. That is what we have requested from the Department of Defense.

Senator CHILES. The Department of Defense has said no.

Secretary REGAN. They have not said no, Senator. I have nothing in writing, and I checked 10 minutes before I came here. As a matter of fact, yesterday noon, Deputy Secretary McNamar talked to Secretary Weinberger. I don't care what the press says. I am telling you Secretary Weinberger has not made a decision, and DOD has not replied to us.

There is not one piece——

Senator CHILES. There is a man named Taft over there.

Secretary REGAN. Yes.

Senator CHILES. He was named after a President, his grandson, or something?

Secretary REGAN. Yes.

Senator CHILES. Well, his word of saying no doesn't mean anything?

Secretary REGAN. He has not written that to us. He has not communicated that orally to Treasury. I don't know who he has talked to. He has not told us.

Senator DECONCINI. No one has conveyed to the Treasury Department from DOD——

Secretary REGAN. That is absolutely correct, and I am saying that under oath for the record.

Senator DECONCINI. Well, you are not under oath, but, Mr. Secretary, I have been told just the opposite.

Secretary REGAN. Well, you may have been told, but I would insist that you go back to your source and say that the Secretary of the Treasury denies it. You should have that person call me and tell me where he obtained his information, because it has not been communicated to me, not by Secretary Weinberger or Assistant Secretary Taft, or Deputy Taft, or anybody else, and neither has my Deputy been told.

Senator CHILES. Mr. Secretary, when did you ask DOD to give you the $11 million?

Secretary REGAN. Back in December.

Senator CHILES. In December? Do you have a letter? Do we have a letter on that?

Secretary REGAN. I would have to find whatever we have for the record. I know that in October and November, it was actually discussed between Mr. Thayer, who was then Deputy, and Mr. McNamar.

Senator CHILES. I think it would be nice if we could get——

Secretary REGAN. I think it would, too, but I would also like to know who your informants are. I would like them to tell me where they got this information.

Senator DECONCINI. We are going to ask them why they haven't conveyed it to you if they have conveyed it to us.

Secretary REGAN. I would like to hear that, because, honestly, they haven't.

Senator DECONCINI. I think you are entitled to that.

Secretary REGAN. As far as the $11 million, we hope to fund it. With regard to other funding, we are asking the airlines to reimburse the Government for $7 million of additional costs we incur on their behalf, when we provide inspectional service on off hours, on Saturdays, Sundays, and holidays. We submit that that is a proper request. We believe that they should pay for these services.

As for air program funding, however, it is true that Customs' budget was $31 million in fiscal year 1984. I cut them back to $28, but $28 is more than we are spending in 1984. We will have more planes in the air in the fiscal year 1985 interdiction program in Florida than we have this year.

[The information follows:]

SEQUENCE OF EVENTS LEADING TO THE CUSTOMS BUDGET REQUEST

1. The original submission to OMB took place on September 14, 1983.
2. The decision to reduce the Customs' budget request by 954 positions took place soon after a Cabinet meeting on November 1, 1983. At the Cabinet meeting the President asked each of the Department heads to go back and give their budgets another hard look. It was decided that the Customs Service could do some belt-tightening with minimal impact on their mission.
3. The OMB passback of Treasury's 1985 budget took place on December 5, 1983.
4. Secretarial decisions on what restoration items to appeal took place at a briefing on December 6, 1983. The briefing informed the Secretary as to what programs had been reduced and solicited his guidance on what items were to be appealed.
5. The decision to reduce Customs was transmitted to the staff before the Secretary had even been made aware of the items OMB had cut. No reductions were made in Customs to offset increases elsewhere in the Department.
6. On December 8, 1983, the staff drafted a letter from the Deputy Secretary to OMB concerning the Department's appeal. the reference in the letter to Customs reductions was intended to alleviate a concern that OMB had raised (in addition to their other concerns) about the total expenses of the Treasury Department. The reference was intended to say that this action had the effect of reducing the total Treasury budget. No causal connection between the Customs budget and those of the other bureaus was intended. The savings proposed were based on the potential efficiencies to be gained in the U.S. Customs Service. The statement in the letter was an after-the-fact

realization of what had occurred as a result of budget decisions made on separate tracks.

CUSTOMS MARINE PROGRAM

Senator CHILES. Mr. Secretary, why would we cut the marine program, which was very small, only $2 million? Why would it get cut 32 percent, $640,000?

Secretary REGAN. The cutback in the marine program was only $200,000. These funds were not considered necessary because we plan to deactivate some of the vessels we were using, which are old and inefficient, and are costly to operate.

Senator CHILES. Mr. Secretary, it sounds like, when you originally applied to OMB, you asked for about $10 million more for the marine program, and OMB turned that down. So you asked for $10 million more, and I applaud you for that—$8 million more, $8.6 million more—for 10 marine modules, and then you were turned down on that, and then you turn around and cut the existing program $640,000.

Now, I just want to tell you that, again, of the cases that we are making in south Florida today, the marine patrol is one of the most important factors, because with the pressure that has been put on by the air interdiction program, now we are finding that the drug people are offloading at sea, they are dropping either with parachutes, or they are making drops to small boats, cigarette boats and all, at sea, and they are bringing it in there.

The best and most efficient thing we have in making arrests is the marine program, and the largest seizures that we have made recently of cocaine have been on boats, three particularly that I am thinking about where there have been big announcements—Customs made those announcements—large seizures. Each one of them was through Customs marine, and I can tell you that we are tremendously upset, because some of the marine boats actually don't have the moneys to operate right now.

Secretary REGAN. Oh, well, that only involved a temporary budget problem and whether there were funds for the maintenance and fuel. The Commissioner himself, Mr. von Raab, was down there and rectified that situation.

The majority of that $640,000 to which you allude is for special operations, for which funding has sharply increased in recent years. Improved intelligence and enforcement has reduced the requirement for as many special operations.

Senator ABDNOR. I think——

Secretary REGAN. I already answered that earlier when I stated that 57 percent of the 544 positions were not in the narcotics frontlines. Part of those are the 42 marine officers.

Senator CHILES. Well, is that what the budget means when it says "special operations?" That is the budget justification for it, "special operations." It doesn't sound like clerical personnel to me.

Secretary REGAN. You are correct. The funds are for special operations.

Senator ABDNOR. Well, I guess that is 5 minutes.

Senator CHILES. Thank you, Mr. Chairman.

Senator ABDNOR. Mr. Secretary, in the event—let's say you have great hopes yet of Defense coming through with the $11 million—but if it doesn't, how do you intend to obtain that?

Secretary REGAN. Well, as I said, then we will have to try to look through this budget, the $5.2 billion, to find out can we scrape together $11 million.

Senator ABDNOR. Well, you would almost have to say that you couldn't cut any more out of Customs.

Secretary REGAN. I didn't say that.

Senator ABDNOR. I know you didn't. I just wanted to hear you say it, that's all, because it just looks to me like——

[Simultaneous speaking.]

Secretary REGAN. I can assure you it will not come out of Customs.

Senator ABDNOR [continuing]. As a priority, and that is what bothers us, I think more than anything else, is the fact that it looks like we are making a very secondary role out of what we think is——

Secretary REGAN. That's——

Senator ABDNOR [continuing]. But I know you feel otherwise. That is very apparent.

Secretary REGAN. I feel that we——

RIF COSTS

Senator ABDNOR. But you have got to admit that if we were with you on all these 954 average positions, there are going to be some RIF's and, as I remember RIF's, there are costs that go with them that we have to take care of. That is not in the budget. That is going to be built in there somewhere. I don't think there is any money in the budget for that.

Secretary REGAN. No; there is not.

CUSTOMS COMPUTERS

Senator ABDNOR. So that has to be taken care of. I have to say one thing. I went through the computer center at the White House the other day, and I was impressed. I know what they can do, and I know what they are doing in IRS. Do you think you can really get that good a service going on computers and that good a system in the first year? You haven't got much down there going now.

Secretary REGAN. As you know, Customs is very paper heavy. I know you have been in Customs houses and seen that mass of paper that any item coming into this country seems to require, and that is what we have been working on. Now, that is very labor intensive, all of that paper, and once you get that on the computers, you automatically can start cutting back on the number of people.

As soon as you start cutting back on the number of people, you can start cutting back on supervisors, and that is what we are attempting to do, not people out on the frontlines interdicting drugs. After all, we have the greatest respect for the efforts of the Congress in this drug interdiction program. We are part of the Vice President's task force. We want to live up to all of our commitments. We are not trying to cut back on drug interdiction.

Senator ABDNOR. Well, there are 452 inspectors, I think. Is that what you have there?

Secretary REGAN. These include cargo and other inspectors, involved primarily in functions and areas where drugs are not the significant problem. The incidence of drug smuggling is minimal.

SENATOR ABDNOR'S INSPECTION TRIP

Senator ABDNOR. I am going to get quite an experience. I am finally going down to Miami and take a swing around and look at the operation, rather than talking about it from a distance.

I hope you have those people down there convinced so when I get on that boat with them they don't drop me off the ship when I am out at sea trying to——

Secretary REGAN. No; I think they will treat the chairman of the subcommittee on appropriations quite gingerly.

Senator ABDNOR. I don't know.

Secretary REGAN. Even the minority members.

Senator ABDNOR. OK.

Go ahead.

Secretary REGAN. And even Senator Chiles if he were going with you. [Laughter.]

Senator CHILES. The ex-chairman.

CUSTOMS/DOD AGREEMENT

Senator DECONCINI. Mr. Secretary, just to go back on what Senator Chiles was talking about, on April 14, the Assistant Secretary of Defense, Dr. Korb, wrote to John Walker, Jr. relating to the first P–3 that was to be turned over to Customs, and I quote this so you can understand why we are so sensitive about the $11 million that you are asking the Defense Department to pick up.

In the second paragraph there, Korb says, "Subject to Customs Service-Air Force agreement, any other appropriate RADAR system may be used for the task which, along with operations and maintenance and spare parts is to be funded by the Customs Service."

It seems to me an agreement was made. They would turn over these aircraft, and they have turned over many of them, and Customs was going to pick up operation and maintenance and spare parts.

So when we see it suggested that $11 million come over, it raises great concern, and there is not much hope that they are going to do that. Now they tell us they are not going to do that. You haven't been told that, so maybe you have more persuasion, and I suggest that perhaps you do. I don't care where the $11 million comes from, but if they don't do it, I don't see how you are going to scrape it together. I just want to give you that free and worthless observation.

Now, let me just go to something nice and easy.

Secretary REGAN. Well, could I just comment on that for a moment?

Senator DECONCINI. Yes, please, yes, sir.

Secretary REGAN. I will assure this subcommittee that we are not going to cut back on the program. If we don't get the funds, I will come forth and confess to you that I have been unable to obtain the funds, and let's talk about how I get the $11 million in the budget.

Senator DECONCINI. You will get this Senator's support.

Secretary REGAN. But what we will try to do first is to make a real effort within our own budget to cut back some other programs. Now, if you disagree with me on that, then we will have to discuss where we get the $11 million, but we are not going to cut back on the air interdiction program.

Senator DECONCINI. I would just feel a lot better if you had just put it in and left it in there. But I realize you are the Secretary and I am not.

MORTGAGE-BACKED BUILDER BONDS

Let me ask you a question that you are going to like, I think, Mr. Secretary. Mortgage-backed builder bonds are bonds sold to the public as a means of raising construction capital and financing the purchase of new homes by consumers. The interest earned on these bonds by their holders is taxable. The collateral used to back these bonds comes from home mortgages held by the issuer.

Under the present provisions of the tax code, the funds raised through builder bonds are not considered taxable. However, the funds generated from the home mortgages serving as collateral are considered taxable income.

This tax treatment allows the builders to obtain the maximum level of usable investment capital through the long-recognized installment sales method of reporting income.

There is some concern that Treasury, either through regulatory change or through the legislative process, might seek to change the installment sales method of reporting income for mortgage-backed builder bonds. I am hoping that you can tell us today with great glee and happiness that the Treasury is not planning any such action to alter the present tax treatment of mortgage-backed builder bonds.

Secretary REGAN. Senator DeConcini, what we are doing at this particular moment is rethinking the whole TIMS proposal. This would have been part of the TIMS proposal.

The builders have told us that we are going to upset too much if we go through with the TIMS proposal, and not allowing Fannie Mae and Freddie Mac to get into that area of the business. They are there now.

Now, we wanted to privatize this. It seemed to us like a good idea.

Having heard what these other people are saying, we have had a meeting of the Cabinet Council on Economic Affairs, which I chair. We have decided to relook at this whole subject, so at the moment it is all on hold, including the builder bonds.

Senator DECONCINI. And including the tax treatment of the builder bonds?

Secretary REGAN. That is correct.

Senator DECONCINI. Mr. Secretary, may I ask you to be so kind as to advise this committee if your decision is leaning toward the direction of changing the builder-bond tax consequences?

Secretary REGAN. I will give you that assurance.

Senator DECONCINI. I will be very up-front with you. I think that has been one of the most innovative things that homebuilders have come up with through this very severe recession. And I just can't impress upon you enough how concerned builders are, having the president of the National Homebuilders from the State of Arizona, Mr. Herder, who is, by the way, a staunch supporter of the administration and the President's reelection committee, et cetera, et cetera. He is very concerned, as are many builders.

I hope to persuade you not to do that. If you can assure us that you will advise us if you are moving in that direction, so that we can attempt to dissuade you, I would appreciate it.

Senator ABDNOR. Let me say this. I assured the Secretary he would be on his way by 3 o'clock. He has an appointment with the President at 3:15. We are now in the process of voting. I wonder if some of us can continue on while the others go and vote.

Senator CHILES. I just have about one more question.

Senator ABDNOR. Go right ahead.

Senator CHILES. I will be glad to stay here while you all go for the vote, if you want me to.

Senator ABDNOR. No, I——

Secretary REGAN. I would be happy if you all leave.

Senator DECONCINI. That is not under oath, but that is stating it.

SOUTH FLORIDA

Senator CHILES. Secretary Regan, last month we heard the horror stories coming out of south Florida with regard to the shortfall of operating funds. We were told that eight Customs patrol boats were drydocked and couldn't be put into the drug war because of a lack of repair funds.

There were stories of Customs cars that lacked radios and were in bad need of replacing tires and other routine repairs. We heard one story that one Customs operating unit was so short they couldn't afford the purchase of algacide needed as a fuel additive to retard the growth of algae in their boat engines.

There were also reports that they had run out of funds needed to take fingerprints. That is pretty necessary if they are going to make arrests.

In fact, the Customs officials were beginning to take money out of their coffee fund to make minor purchases to keep the law enforcement operations underway.

The committee has been told that these problems came about because the fiscal year 1984 budget approved funding for 400 fewer positions than were on the roles at the end of 1983, and in order not to force a RIF, the Customs headquarters had reduced the funds available for operations.

That certainly had a disastrous effect in south Florida.

As you know, Mr. Secretary, the Service has sent an additional $180,000 to the Miami region to help address these problems. Reports I am getting were that this funding would only be adequate to take care of the problems associated with the patrol boats, and I wonder if we can count on your help to transfer additional funds to the Miami region to take care of any additional operating shortfalls that we have.

Secretary REGAN. Senator, if at all possible, and with the chairman's permission, I would like Commissioner von Raab on my right to answer that question specifically for you. He went down there to investigate, and it was while he was down there that the newsstories actually did break. He was aware of it before the newsstories, and I believe he has rectified the situation, but I would like you to hear from him personally.

Mr. VON RAAB. The problem resulted from a bureaucratic SNAFU, for which I take responsibility. There were eight boats beached in Florida.

I have spoken sternly to the bureaucrats involved. The reason that this happened was a lag in the formal transfer of funds from headquarters to the region. It had nothing to do with any shortage of funds within the Customs Service to conduct the present, very respectable level of operations in Florida.

As far as the boats are concerned, two of them were fixed within 48 hours for $1,500. I might add that it was all a sort of a Washington Monument ploy pulled by the regional officials.

Two of the boats could never have been fixed, and they will be replaced. The other boats are being fixed; in fact, one of them is already repaired. They required motor repairs.

The stories about ink pads and buying ink out of people's own pockets are ludicrous. They are amusing. They were thought to be funny by the agents involved. I can assure you that those agents don't think those stories are funny any longer.

It all had to do with the imprest fund in Key West. The imprest fund had plenty of money in it, and for some reason, because of a disagreement between the agents and whoever was managing the imprest fund, they couldn't get the money out of the imprest fund, so they went out and spent their own money.

I think you have here the phenomenon that takes place—unfortunately, it took place in the Customs Service—of just bureaucrats fighting with each other, and I can assure you that the level of operation in Florida remains high, and there is sufficient money to support it.

The $180,000 which was going to be on its way to Florida anyway is there. Just so you don't get nervous, that is only designed to carry these operations through June 30. An additional amount of money that is already planned to be sent to Florida will be sent in the normal course of events, because like all Government agencies, we budget by quarters to carry the same level of marine operations through the end of the fiscal year.

So there are no financial problems with respect to Florida operations with the 1984 budget.

Senator CHILES. There are no money shortages now that are going to cause some boats not to operate, or some crew not to go out?

Mr. VON RAAB. There should not be. If there are, it is a fault in management, and it is not a fault in the support that is available in the Customs Service, and I will be twice as angry if it comes up again. It had better not, because there is no reason for it to happen.

SECRET SERVICE BUDGET

Senator ABDNOR. The second bells haven't gone off yet, so let me jump off of Customs for a minute. We do have some other interests, and while Customs is the big thing at the moment, I am also concerned, and want to ask you, about the Secret Service.

We succeeded in providing positions that we thought were needed last time in manpower levels back in the 1984 budget, and they cannot be hired because your fiscal 1985 budget doesn't provide funding to keep them from being RIF'd.

How did you reach the decision on the Secret Service? Are we misinterpreting this, and are those positions that we thought we funded in 1984 been filled. Are we going to be able to keep them, or haven't they been filled and will not be filled? I guess that is the question I am asking.

Secretary REGAN. As I understand it, Mr. Chairman, in the fiscal year 1984 continuing resolution, in addition to the 50 agent positions supported by the administration, Congress added 175 agents and 100 support personnel.

Senator ABDNOR. That's right.

Secretary REGAN. The 200 additional agents that were authorized and were funded in 1983 and hired in 1983 are now being trained. Those agents will be reaching their full productivity in fiscal 1985, so I feel the fiscal year 1983 staffing plus the 50 agent positions requested and approved in fiscal year 1984 are adequate to meet the Secret Service workload.

Senator ABDNOR. Does that include that, by 1985, the whole 184, or whatever it was?

Secretary REGAN. That is correct.

Senator ABDNOR. Oh, alright.

Secretary REGAN. So we think that we have that. Now, the workload itself will probably be less in the year because after the inauguration we are going to drop the candidate/nominee protection in 1985.

Senator ABDNOR. Well, I will tell you, that is fine, and we will go into more depth with Director Simpson on that when he comes before us.

Secretary REGAN. Fine.

BATF BUDGET

Senator ABDNOR. I felt the same way about the BATF, the reduction that you have in the regulatory enforcement. I am correct that it has been reduced by 50 percent, in that area, the regulatory enforcement.

Now, you know, there is a big movement to put in considerably more excise taxes, and other things, and the minute we passed TEFRA, I got it by IRS saying they needed additional employees, and I agreed with them and put them in over the objections of some Members of my committee, but it looks to me like we are doing just the opposite over here with BATF and their job of enforcement if we are going to start cutting into regulatory enforcement.

Everything I have been hearing coming out of finance and ways and means is putting more taxes on liquor and beer, and all the beer distributors have sure let me know about it. So I am wondering if we are making a mistake. I would like to be consistent on this thing.

Secretary REGAN. Hopefully we are not. It is a reduction of 92 positions in various programs within the alcohol area. Again, it is a question of trying to use management judgment to be more selective in the type of compliance that we are getting at rather than to just throw people at the problem.

Now, I will tell you this, Mr. Chairman: In the event that the Congress in the current revenue-raising measures that are under discussion in finance and ways and means in the other House, do require more work effort, we will be back for additional people to man that.

Senator ABDNOR. Fine. Gentlemen, I think we had better go vote. It is a quarter to two, and we will never get back in time.

ADDITIONAL COMMITTEE QUESTIONS

Senator DECONCINI. Mr. Chairman, I have a number of questions I will submit to you, Mr. Secretary. Thank you for your responses.

Senator ABDNOR. We will all have written questions. Senator Laxalt has several.

Secretary REGAN. We will be more than happy to respond to the questions.

Senator ABDNOR. Thank you very kindly.

When we come back, we will hear from Mr. Rogers.

[A brief recess was taken.]

[The following questions were not asked at the hearing but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR TED STEVENS

FILING OF FORMS 1099 ON MAGNETIC MEDIA

Senator STEVENS: How will the Service accommodate small financial institutions not currently using any data processing support?

Mr. REGAN: The Service has a provision to grant undue hardship waivers from filing Forms 1099 on magnetic media. Payors with approved waivers may file paper 1099's in lieu of reporting on magnetic media.

Senator STEVENS: Has the IRS done any study on who will supply this service for such institutions and how much it will cost?

Mr. REGAN: No, we have not.

Senator STEVENS: Would the IRS consider moving the February 28th reporting deadline later in the spring for these small payors so they would not have to buy records conversion services at the peak seasonal demand period?

Mr. REGAN: No. The Service prefers to keep the February 28th due date to ensure its ability to match current information returns. With the undue hardship waiver and permission to use optical scanning means of satisfying the magnetic tape requirement, payors should not have difficulty complying with the law. In addition, small payors will be allowed to file paper returns.

ASSIGNMENT OF SOCIAL SECURITY NUMBERS

Senator STEVENS: Someone who does not have a Social Security number can tell the payor he has applied for a SSN and will have 60 days to obtain the number. Are people having trouble getting the necessary documentation together (such as a birth certificate from a bureau of vital statistics) and getting a number from the Social Security Administration within the 60 days?

Mr. REGAN: SSA states that 90% of the SSN applications are processed within 10 days and the remainder within 20 days. These taxpayers have filed their applications with the required proofs (birth certificate, driver's license, etc.) needed by SSA to assign an SSN. There is no data on the length of time it might take taxpayers to obtain the required proofs.

ASSIGNMENT OF EMPLOYER IDENTIFICATION NUMBERS

Senator STEVENS: Is the IRS promptly assigning Employer Identification numbers to informal employee and recreational groups such as bowling leagues and coffee clubs? Are they having to fill out elaborate forms to justify a tax-exempt status? Is there a need for simplified procedures to get these types of accounts out of backup withholding and 1099 reporting?

Mr. REGAN: In reply to your question about the timeframe for processing Forms SS-4, Application For An Employer Identification Number, the Service has always stressed prompt assignment of numbers. We normally issue Employer Identification numbers within one to two weeks after we receive the application and even when the volume is heavy the number is usually issued within four weeks. As the Backup Withholding regulations allow 60 days to obtain an identification number, the organizations should receive it in sufficient time to avoid being subjected to backup withholding.

The organization is not required to obtain tax exempt status before an Employer Identification number is issued. However, to apply for tax-exempt status, they are required to file Form 1023, Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code or Form 1024, Application for Recognition of Exemption Under Section 501(a) with the Service. The Forms 1023 and 1024 are very detailed as an in-depth review of the purposes and the proposed activities of the organization are needed to make a determination for tax-exempt status.

Backup withholding will not apply to individuals who open accounts for employee and recreational groups if they provide an Employer Identification Number. In addition, if the group has obtained tax exempt status, payments to the group are not subject to information reporting and correspondingly will not be subject to backup withholding. Payors may require tax exempt organizations to furnish their EIN and notify the payor that they are one of the types of organizations listed on the W-9 as being exempt from backup withholding.

TEMPORARY REGULATIONS

Senator STEVENS: The IRS has issued three sets of temporary regulations on backup withholding in question and answer format. When are additional regulations going to be issued to fill in the remaining operational details?

Mr. REGAN: The three sets of temporary regulations on backup withholding explain all the operational rules of backup withholding. A notice of proposed rulemaking containing the provisions of the temporary regulations including examples of the rules contained in the question and answers will be published in the Federal Register shortly to provide the public an opportunity to comment on the provisions.

The Service held a public hearing on August 31, 1983, before any regulations on backup withholding were issued. The purpose of the pre-regulation hearing was to solicit the public's comments and to raise administrative problems with respect to implementing backup withholding. Over 100 people attended the hearing to make oral comments and approximately 400 written comments have been received. All comments have been taken into consideration in drafting the regulations on backup withholding.

COST OF DUE DILIGENCE MAILING

Senator STEVENS: What is the Service's estimate as to the cost to payors of the 1983 due diligence mailing?

Mr. REGAN: The Service has not estimated the cost to payors of due diligence mailing.

VOLUNTARY MATCHING PROGRAM

Senator STEVENS: The IRS has instituted a voluntary matching program. Since magnetic tape reporting will be required from virtually all payors starting in early 1985, in hindsight wouldn't it have made more sense for there to have just been computer matching of all 1099's filed in early 1985 to straighten out payors' records with a mailing limited to those accounts with missing or obviously incorrect TINs?

Mr. REGAN: The voluntary matching program, which was established after we received requests from several financial institutions, is intended to assist payors to correct their records without the Service taking any punitive action. Participation in this program is not intended to replace the actions payors must take to avoid the penalties under Internal Revenue Code Section 6676.

Under the voluntary computer program, the Service will receive payor tapes containing payees' Social Security Numbers (SSNs) and names. We will compare this data against Social Security Administration (SSA) supplied data of valid SSN/name combinations. Following this validation, we will provide feedback to the payors on the accuracy of their supplied combinations.

In 1985, we will compare the payee names and SSNs on the Tax Year 1984 interest and dividend information returns (Forms 1099) against updated SSA supplied data and provide feedback to the payors on the accuracy of these combinations. Payors will have to self-assess a $50 penalty on April 1 for each incorrect combination unless they have evidence that they exercised due diligence in attempting to obtain the correct SSN and name.

COST OF SEPARATE 1099'S

Senator STEVENS: What is the Service's estimate as to the cost to payors of sending out separate 1099's in January 1985? Does the Service feel there will be a significant increase in compliance because of this requirement?

Mr. REGAN: The Service has not developed estimates of the cost to payors of sending out separate 1099's in January 1985. The Service feels that the requirement for issuance of 1099's will significantly improve compliance. Previously, information relating to reportable income amounts was often recorded on annual or quarterly statements issued by payors to their clients. Because these statements usually contained much other information and were not uniform, the reportable income amounts could easily be overlooked. In addition, these statements generally did not include the instructions to taxpayers contained on Forms 1099 on how to report the income on their tax returns. The requirements for separate 1099's will, therefore, ensure that taxpayers are aware of the amounts of reportable income and exactly how such income is to be reflected on their tax returns.

ANNUAL FOLLOW-UP NOTICE

Senator STEVENS: What will be the requirements of the annual follow-up notice which must be sent to those accountholders who did not respond to the 1984 due diligence mailing? Could this annual follow-up notice merely be a legend on the official 1099 form indicating that the taxpayer should check to see if the SSN listed on the 1099 is correct and, if not correct, to notify the payor?

Mr. REGAN: The temporary regulations provide that the subsequent year's mailing resoliciting the payee's taxpayer identification number does not have to be a separate mailing nor is there a requirement for the payor to include a postage-prepaid reply envelope.

In addition, the temporary regulations provide the language of the notice which must be furnished to the payee in the follow-up mailings. The language of the notice must be given to the payee but the payor is allowed to include the notice with other information the payor sends to the payee, including Forms 1099 which provide the amount paid to the payee during the year.

REPORTING DEPOSITS FOR BACKUP WITHHOLDING

Senator STEVENS: Has the IRS issued a revised 941 quarterly reporting form to include deposits made of funds withheld under backup withholding? (The first backup withholding report is due on April 30th).

Mr. REGAN: Yes. Forms and instructions have been developed and mailed to employers for the purpose of reporting.

PENSION WITHHOLDINGS

Senator STEVENS: Payors do not have to aggregate backup withholding with wage withholding for purposes of calculating the $500 and $3,000 thresholds. Why should pension withholdings have to be aggregated?

Mr. REGAN: Under backup withholding, payors may aggregate the amount withheld from wages with amounts withheld under Internal Revenue Code (IRC) section 3406 (relating to backup withholding). Similarly, payors of pension, annuity, and other plans of deferred compensation may aggregate the amount withheld from wages with amounts withheld under IRC section 3405 (relating to pension and annuity withholding) to determine when to remit the withheld amounts. Plan administrators are allowed to obtain a different employer identification number (EIN) for the plan than the payor has for payroll. Thus, since the EIN controls the procedure for remitting, depositing, and reporting amounts on Form 941, payors are not required to aggregate the amounts withheld from pensions with amounts withheld from wages to determine when to remit the withheld amounts if the plan has a different EIN than the payor has for payroll.

FORM W-8

Senator STEVENS: I understand that the W-8 form certifying alien status has just recently been issued although payors have needed the form for several months. Why did it take so long to develop?

Mr. REGAN: Development of Form W-8 originally began under the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA, Pub.L. 97-248). The form was intended to be used by foreign corporations, partnerships, estates and trusts, as well as nonresident alien individuals, to certify to payors of interest and dividends that they were not "U.S. persons." Thus, interest received by such entities would not be subject to the 10% withholding imposed by TEFRA nor would the amount be subject to information reporting.

Regulations were published in March of 1983 which enabled payors to meet the certification of non-resident status requirements of TEFRA without the need to use Form W-8. Instead, payors of interest could develop their own certification statement (Treasury Decision 7881, Regulations Section 1.6049-5(b)(2)) and brokers could meet the certification requirements by use of a signed statement containing the necessary information (Treasury Decision 7873, Regs. sec. 1.6045-1(g)). Drafts of Form W-8 were developed during 1983 to implement the TEFRA requirements. However, with the enactment of the Interest and Dividend Tax Compliance Act of 1983 (Pub. L. 98-67), withholding on interest and dividends was repealed, and Form W-8, which was ready to be issued, had to be revised to reflect the new backup withholding provisions.

In August 1983, the securities industry requested that we expand the proposed W-8 to cover broker transactions in addition to interest payments, or provide a form similar to the W-8 for exempt foreign persons.

Because of the law change in mid year and the securities industry request, which we honored, we were unable to issue Form W-8 until early in 1984.

SELF-ASSESSMENT OF PENALTIES

Senator STEVENS: How is the self-assessment of penalties going to work?

Mr. REGAN: Prior to submitting their Tax Year (TY) 1984 interest and dividend information returns (which are due on February 28, 1985) payors are to count those returns for which they do not have taxpayer identification numbers (TINs) or for which they have obviously incorrect TINs, and for which they have not exercised due diligence in attempting to obtain good TINs. The penalty equals $50 times the counted information returns and should be reported and paid to the Service by April 1, 1985. We are developing the form payors should use to report this penalty.

After reviewing the payors' TY 1984 information return submissions, we will notify payors of those which they filed with invalid TINs. These notices will be issued beginning in mid-1985. Upon receipt of these notices, payors should account for those records for which they have exercised due diligence. Payors are required to self-assess a $50 penalty for every 1099 that has no TIN, an obviously incorrect TIN, or a TIN with respect to which the Service has notified the payor as being incorrect unless payors have evidence that they have exercised due diligence in soliciting the TIN. These penalties should be reported to the Service by April 1, 1986.

Also, we are developing a system to verify these payor assessed penalties.

NOTIFICATION OF BACKUP WITHHOLDING

Senator STEVENS: When will IRS begin to notify payors to begin backup withholding because a taxpayer either provided an incorrect TIN or underreported in a prior year?

Mr. REGAN: The Service plans two efforts to notify payors to begin backup withholding: first, when payees provide an incorrect taxpayer identification number (TIN) to payors; and second, when interest/dividend income is underreported on payee income tax returns.

To determine records with incorrect TINs, we will match payee names and TINs from 1099 forms against Social Security Administration records. The notices to payors to obtain a correct TIN from payees or implement backup withholding within 30 days will begin in July 1985 with respect to information returns filed for 1984 payments.

Notices to payors to start backup withholding because payees underreported interest/dividend income will begin in October 1985. These notices to payors cannot be sent until payees receive (4) notices over a 120 day period informing them that they did not report the income and that they owe additional tax.

NOTIFICATION TO PAYORS AND PAYEES

Senator STEVENS: How will IRS notify a payor to begin to backup withhold on a taxpayer (for the reasons given in #13 above) and what responsibility will payors have for notifying a taxpayer that withholding is to begin?

Mr. REGAN: When we detect a Form 1099 without a valid TIN/name combination, we will correspond with the payor at the address on the document transmitting the Form 1099. This correspondence will include a notice outlining the withholding provisions of the Interest and Dividend Tax Compliance Act. The payor is required to send this notice to the affected payee.

In the cases of backup withholding for underreported income, the instructions to the payors to begin withholding will direct them to notify their payees that such withholding is to begin. These instructions will be the final step in a long stream of notices to the payees about withholding. For example, the Service will have sent each payee at least four notices related to the underreported income, mentioning the potential institution of withholding.

VALIDATION OF TINS AND NAMES

Senator STEVENS: Where a married woman uses a maiden name, for instance, on a NOW account with an overdraft feature (as permitted by the Equal Credit Opportunity Act), and the IRS records reveal a married name, the payor's 1099 data will automatically result in an error since the name provided does not correspond to the TIN. What steps is IRS taking to eliminate the burden of resolving these non-errors year after year?

Mr. REGAN: When we receive new TIN/name combinations from the Social Security Administration (SSA), the new combinations are added to the current file but the old data is not removed. Therefore, the file contains all combinations which were ever valid, not just those which are currently valid.

Therefore, if we receive a Form 1099 showing a married woman's maiden name and that maiden name was previously valid for the TIN on the 1099, it should be valid after our review.

Senator STEVENS: Frequently, W-9s were returned with a TIN and both joint account-holders names without designating the person whose TIN was provided. Further checking by payors proved extremely burdensome, so the number provided was assumed to be the first person's TIN. It is likely that the IRS match will reveal a number of TINs are invalid because they actually belonged to the second named person on the W-9. The IRS tape format requires payors to provide both the first and second named person on joint accounts. Will IRS check both the first named person and the second person on a joint account when IRS checks the 1099 tape for accuracy of TIN? If not, despite best efforts by payors, these non-errors will have to be resolved, adding to the burden and expense of compliance.

Mr. REGAN: Under our current processing, we check the TIN against the first person only. Therefore, the situation you describe could occur if the TIN actually belongs to the second person.

We are attempting to ameliorate the effects of this situation. The instructions to payors on how to properly submit Forms 1099 clearly state that the TIN must belong to the first person. Also, we are reviewing the Form W-9 to make its instructions more explicit in this regard. When we notify payors of these invalid TINs, however, they must obtain certification of the TINs from the first person listed on these accounts as required under the statute.

Senator STEVENS: Will the IRS make wide use of 1983 1099 data during 1984 to identify errors in TINs or will it wait until 1984 data is provided in 1985 and the new "due diligence" penalties apply?

Mr. REGAN: During 1984, we are pursuing two efforts related to the TINs on information returns. One effort is the continuance of our annual internal program for perfecting the TINs and names on information returns. Our most recent statistics show that 11% of the tax year 1981 Forms 1099 processed were found to have invalid TIN/name combinations and that we were able to correct 14% of these.

The second effort, the voluntary matching program you referred to earlier, is a one-time effort to provide payors with information on the correctness of the payee TINs and names on their accounts.

QUESTIONS SUBMITTED BY SENATOR DENNIS DECONCINI

GREY MARKET

It is my understanding, Mr. Secretary, that the U.S. Customs Service has proposed regulations that would eliminate the current distinction between domestic corporations with a foreign affiliation and domestic corporations without a foreign affiliation with regard to the imporation of trademarked goods. I applaud the Customs Service's efforts since as far as I or any of my staff can determine there is absolutely no basis for the distinction in Section 526 of the Tariff Act of 1930. Indeed, the Justice Department in its brief in the Bell & Howell v. Mamiya case could find no justification for the distinction as a matter of law, or legislative history or policy. What is disturbing, Mr. Secretary, are reports that the Treasury Department is preventing the publication of these proposed regulations so that the normal period for public comment can begin.

QUESTION: Mr. Secretary, why is the Department of Treasury preventing or delaying publication of these proposed regulations?

ANSWER: As you know, there have been strong arguments presented on both sides of this issue, and in fact, it is the subject of several lawsuits currently pending in Federal courts. Since the current Customs regulations are the embodiment of a long-standing Customs practice rooted in legislative and litigative history, it would be inappropriate to change this practice by a mere regulatory amendment. At this time, if any change is to be made at all it should be either through a legislative change or by a judicial decision. A copy of the U.S. Government's brief filed in the Vivitar case which is being litigated in the Court of International Trade is being forwarded under separate cover. It gives a more thorough analysis of the Customs interpretation of the statute.

It is also my understanding, Mr. Secretary, that the Department is urging a very peculiar procedure designed, I believe, to give the impression of movement while very clearly not moving at all. I refer to the idea that has been attributed to the Treasury Department of asking for a general comment from the public on the economic impact of a change in the regulations without actually publishing the regulations themselves as is the normal procedure.

QUESTION: Why Mr. Secretary, has the Department of Treasury decided on asking for public comment on the economic impact without publishing the regulations too?

ANSWER: Customs and Treasury intend to issue a request for economic information on the issue at the request of the Intellectual Property Working Group of the Cabinet Council on Commerce and Trade (CCCT). Since there have been so many representations by both sides on the issue as to the economic impact of the Customs regulations, it was felt by the Working Group that more hard economic data was necessary before a decision could be made on how to proceed. It should be noted that the Department of Justice is represented on the Intellectual Property Working Group and has briefed and argued the Customs interpretation in the present litigation.

CUSTOMS REDUCTIONS

Mr. Secretary, let me walk you through the evolution of the Customs budget as given to us by sources at OMB and see where you made the decision to cut the air program back to $17.1 million.

1. Customs request to OMB: $684,456,000 including $38,082,000 for the Air Program.

2. OMB sent back to Treasury a figure of $623,731,000 including $35.9 million for the Air Program.

3. Treasury sent to the President $602,405,000 including $17.1 million for the Air Program.

QUESTION: When the OMB passback came to your office, and the President's message arrived saying "cut deeper," didn't you have an opportunity at that point to hold the line on the Customs Air Program, and cut back in other Treasury programs, including your own Office of the Secretary budget? If so, why didn't you?

ANSWER: Each agency program was reviewed and assessed based on their specific merits and the potential for achieving similar results by more cost-effective means. With regard to the Customs Air Program, we believed that DOD could do a better job maintaining the military aircraft to their own standards, which they require, especially since there is a 72-hour recall provision in the agreement, and therefore it would be more costly and difficult for Customs to develop the required capabilities. Under DOD logistics and operational support Customs aircraft would probably achieve higher operational utilization thus increasing air interdiction effectiveness.

My Office of the Secretary budget which includes many high priority programs, was developed carefully, separately and independently. The increases in the Office of the Secretary are for enhancements to our telecommunications and telephone systems, automated data processing improvements, and renovation of the Treasury Annex Building; all longstanding requirements.

Finally, I would like to stress with respect to the Customs Air Program that this budget reflects no diminution of effort compared with 1984. In fact the projected FY 1985 level of operation exceeds the previous year and additional high performance aircraft will be available for interception/tracking of smugglers.

QUESTION: What specific rationale did you use in cutting the $35.9 million OMB approved for the Air Program, back to $17.1 million? What specific pieces of the Air Program did you hope to scale back?

ANSWER: The total Customs FY 1985 budget request was reduced by $35.9 million, of which the $11 million from the Air Program was proposed to be shifted to the Department of Defense. Under this proposed plan, there would be no diminution of the Customs Air Program operations compared to 1984. As the Committee is aware, the DOD has recently loaned aircraft, radar, and other equipment to Customs. Since the DOD requires that the equipment be maintained to their standards, ready for return in 72 hours notice should conditions require it, we believe that the DOD can better provide the necessary maintenance support and expertise. Therefore, we requested DOD to provide for maintenance, fuel and other support costs. With this support, the Customs Air Program would not be scaled back; but in fact it would be at its highest scale of operations in FY 1985.

Mr. Secretary, $15.1 million of your proposed cuts in the Customs budget are built on two major assumptions that probably will never happen: (1) that the Congress will adopt legislation amending the Airway Development Act to allow Customs to charge air carriers for inspectional services in the U.S. on Sundays and holidays (-$7.0 million); and (2) that the Congress will approve major organizational realignments at Customs in 1985, including consolidation of two regions, closing of some offices, and centralizing other ports and offices (-$8.1 million). For the past several years, this Committee and the Congress have strongly opposed such efforts to close offices and realign regional and district offices. Also, I am informed that your changes for amending the Airport and Airway Act are slim to none.

QUESTION: What specific steps will you take to recapture $15.1 million and the 231 positions you assume you won't need next year, if these two major legislative and reorganization proposals are killed by Congress?

ANSWER: The amendment of the Airport and Airways Development Act and organizational consolidations were incorporated in the budget because the Customs Service believes both actions are justified and would in the end provide for better and more efficient service. The Grace Commission supported and recommended that Customs implement both programs.

If these proposed actions are not accepted by the Congress, then Customs would face a shortfall of $15.1 million in FY 1985. Customs options for responding to this problem would involve implementing reductions in various inspection and commercial programs, cutting back on hiring in FY 1985, and delays in recruitment for vacant positions.

DOD OPERATION AND MAINTENANCE

Mr. Secretary, you have said that the cut in the Customs Air Program was predicated, in part, on your expectation that DOD would chip in about $11 million for operation and maintenance funding to Customs. I consider your request to be a breach of faith with DOD since the agreement between Customs and the Pentagon has always been that they would loan you equipment in return for your paying for the operation and maintenance of that equipment. Letters from both Dr. Larry Korb, Assistant Secretary of Defense, and the Secretary of Defense to you and Members of Congress have consistently outlined this agreement. I am informed now that the Secretary of Defense has turned down your latest request for operation and maintenance money next year.

QUESTION: Now that the Department of Defense has turned down your request for funding, what specific plans do you have to restore funding to the Customs Air Program? Will you send up a budget amendment? Reprogram from other Treasury accounts?

ANSWER: The Department of Treasury is committed to maintaining an effective enforcement posture within the Air Program. The Department is now reviewing its overall budget to determine where the funding could be obtained. As indicated by the Secretary of the Treasury, the Congress will be consulted on the restoration of funding for the Air Program. We do intend to present an amendment to the FY 1985 budget request for the $11.0 million requested of DOD and $4.0 million for the large Aerostat to be located in the Bahamas.

OPERATION EXODUS

Mr. Secretary, this Administration talks a good game about cracking down on high technology exports to Soviet bloc countries, but, like with the drug program, doesn't seem to put its money where its mouth is.

Operation Exodus in Customs is our major, frontline defense against exported high technology going to the Soviets, yet your budget cuts the Exodus program from $31 million in FY 1984 to $16 million next year, a cut of 48 percent. Part of that cut is for so-called nonrecurring costs, but even with those items considered, the cut is 25 percent below 1984.

QUESTION: What was your rationale for cutting Operation Exodus at a time when Customs is being given the lead in export administration enforcement?

ANSWER: The Customs Service will continue to protect U.S. national security by disrupting the illegal export of strategic technology to hostile governments. Substantial savings will result from the targetted enforcement concept which focuses our resources on selected critical technology exports. Customs has increased its analytical intelligence communications capabilities. In addition, computerized information provides the field units with updated and better intelligence. Also, enhanced foreign cooperation through an expanded network of overseas offices will result in improved intelligence gathering. In total, these increased capabilites will increase the success of operations, decreasing the number and scope of inspectional blitzes.

BORDER CONSOLIDATION PLAN

Mr. Secretary, added to the budget woes of Customs next year is the INS-Customs primary inspection plan that would result in Customs losing 165 patrol officers and a total of 282 positions to INS. If you add these cuts to the 400 positions Customs lost in fiscal 1984 and to the proposed cut of 954 positions in FY 1985, Customs will have lost 1,636 people in just two years. If we approve these reductions, Customs staffing will be 1,733 less than it was in fiscal year 1980.

QUESTION: How can you endorse any primary inspection plan that would slash another 282 Customs personnel from the Treasury roles? How did you decide that Customs could afford to let 282 people go over to INS under this plan?

ANSWER: Any loss of Customs personnel would result in an immediate and equivalent increase to INS. The same dual-agency primary inspection functions would continue to be performed by basically the same individual inspectors. The main difference would be that all of the primary inspectors would be working under the management of a single agency.

On October 18, 1983, while options for a border inspection consolidation plan were being reviewed, Assistant Secretary John Walker wrote you a good, detailed memo on consolidated border inspection which pointed out that consolidation of primary inspection into Customs would save 973 positions and $27 million as opposed to a savings of 272 positions and $6 million if there was a consolidation into INS. He went on to advise that consolidation into Customs would be the least disruptive option since Customs handled the majority of the workload at primary inspection anyway. I also understand that the Grace Commission Report seemed to favor Customs with its better management over INS.

QUESTION: In view of the substantial dollar and personnel savings to be derived by consolidation primary inspection into Customs, why didn't you more aggressively pursue this option with the Cabinet Council and the President rather than cave into the turf fight with INS?

ANSWER: A very thorough and (we thought at the time) convincing case was made for consolidating all border primary functions into Customs. The arguments for this case were aggressively pushed. Although Treasury and Justice probably thought each other's arguments may have been somewhat partial, the decision by the Cabinet Council was not made on which agency more strongly protected its "turf"; rather, it was a rational decision based on overall review of all of the proposals and arguments made by Customs and INS.

Mr. Secretary, back in the fall of 1983, your Deputy, Mr. McNamar, wrote a letter to OMB Deputy Director Joe Wright, criticizing the proposed inspection consolidation plan and recommending that primary inspection be consolidated in Customs--not INS and not in both agencies, as is currently planned.

In that letter, he told Mr. Wright, "enforcement and particularly narcotics enforcement effectiveness would be weakened at exactly the wrong time." Mr. McNamar went on to say, "the Administration would be subject to ridicule by Congress for solving problems of fragmentation, duplication, and lack of accountability by further splintering of border responsiblities."

That is some pretty heavy criticism from your Department and proves that your heart really isn't in this consolidation plan.

QUESTION:	If the present consolidation plan is such a bad idea and your top Deputy fears it will hurt drug enforcement, why are you still standing behind the plan? Why not fight back and protect your Department's law enforcement missions?
ANSWER:	We do not believe the present plan is a bad one. Rather it is a realistic compromise. The primary effect of the consolidation will be putting inspectors under the management and supervision of a single agency for the first time. Because the same inspectors will basically be performing the same enforcement efforts they have always done at the borders, weakening of enforcement, if any, should be minimal and temporary. Although there are always problems associated with a consolidation or merger of any type, the many benefits of consolidation outweigh these temporary problems.

BORDER CONSOLIDATION: INS WORST AGENCY IN GOVERNMENT

Mr. Secretary, let me read you a quote from a book called "The Tarnished Door," a book about our immigration problem that was written by the 1981 Pultizer Prize winner, John Crewdson:

> "Overwhelmed by an enormous influx of legal and illegal aliens that had crippled its frail bureaucracy, hampered by a bare-bones budget, a victim of decades of inattention from Congress and successive administrations, shot through with nepotism, incompetence, corruption, and brutality, the INS was suffocating beneath a mountain of paperwork, its harassed staff badly demoralized by the hopeless task of plugging holes in a boat that was continually shipping water."

Crewdson goes on to call INS the worst-managed, least-effective, Federal agency in Washington.

QUESTION: Is this the agency that you personally are willing to turn over your land border law enforcement responsibilities to, at a time when drug trafficking along our land-locked borders is skyrocketing and our alien problem is unabated?

ANSWER: The inspectors of both Customs and INS have performed admirably over the years in their inspectional enforcement efforts not only for Customs, INS, and Agriculture, but also for the many other regulatory and law enforcement agencies.

Several recent innovations by Customs in inspectional procedures and techniques have produced improved enforcement results at land border ports of entry. Training in these areas will be given to all primary inspectors including those from INS. In addition to the INS inspectors conducting primary examinations, there will continue to be a contingent of Customs inspectors to conduct secondary examinations of vehicles and passengers.

BORDER INSPECTION PLAN

Mr. Secretary, my overriding concern over the Administration's proposed border consolidation plan is the effect the plan could have on narcotics interdiction at the land borders. I am informed by staff that the INS union opposes the plan, and the Border Patrol union opposes the plan for one major reason--they do not have the manpower, the training, or the equipment at the land borders to deal with drug trafficking on top of their other major alien documentation job at the airports and seaports.

INS personnel are not experienced nor specially trained in drugs--they are trained to process aliens. On the other hand, Customs has nearly 200 years of experience in profiling smugglers and they have a huge 3:1 edge over INS in inspection personnel.

QUESTION: In view of the opposition to the plan by the INS rank and file and Customs getting out of the primary drug inspection business, what specific iron-clad assurances were you given, or can you give us that narcotics enforcement at the land borders will not suffer under the current Administration consolidation plan?

ANSWER: At the land border ports, INS primary inspectors are experienced in drug interdiction efforts. Similarly, Customs inspectors have been responsibile for many INS apprehensions. At primary inspection, cross-designated Customs and INS officers have worked side by side performing the same functions for both agencies. In view of this, and in view of the additional training that will be given by Customs during consolidation, narcotics enforcement should remain at a high level. Customs will be closely monitoring enforcement efforts and results in order to resolve any problems which might surface in the enforcement area.

CUT IN INSPECTORS

Mr. Secretary, for the second year in a row you are proposing drastic cutbacks in the Customs inspector work force. Last year, the Administration recommmended cutting 820 inspectors and in FY 1985 you are recommending a cut of 452 inspector slots. In your budget book you say that you will be able to absorb this reduction through "improved enforcement through intensive selective examination instead of general review and paper processing." (p. 7) Well, Mr. Secretary anyone who has been out working with your inspectors and seeing how they do their difficult job knows that they do not do general reviews and push paper. They have great skills and use profiling techniques that are based on selective analysis of potential smugglers, cargo shipments, and airlines. So your budget is based on a false premise--let's be honest, you want Customs to do more with fewer inspectors.

QUESTION: What specific evidence leads you to believe that Customs can maintain its drug enforcement and other law enforcement missions next year with 452 fewer inspectors? Be specific.

ANSWER: Customs has developed several innovative procedures and techniques to facilitate passengers while at the same time enhancing enforcement. One-stop processing, passport readers, red/green inspection systems with citizens bypass, and rovers utilizing observational profiles and stress analysis have significantly increased facilitation and enforcement at airports and seaports. Roving inspectors in the baggage area identify high and low risk travelers. Low risk travelers are allowed to depart the Customs area using a by-pass lane. That Customs is able to perform effectively using fewer personnel is demonstrated by the fact that Customs now processes more passengers per inspector while making more narcotic seizures than ever before.

In cargo operations, the Automated Cargo Clearance and the Enforcement Processing Technique (ACCEPT) has been expanded from 4 ports to 19 ports, while another 35 ports have manual ACCEPT utilizing computer printouts. This systematic method of selectivity targets high risk cargo and allows Customs to more effectively employ inspectoral personnel. Customs is further developing the Automated Commercial System (ACS) to minimize clerical tasks and to divert resources to enforcement. Customs has made significant manpower gains by incorporating aspects of the Model Seaport Concept at 6 major ports. The emphasis on central entry processing sites and mobile examination teams has improved productivity and resulted in the reallocation of manpower into enforcement teams.

SILER REPORT ON THE AIR PROGRAM

Mr. Secretary, last September a Blue Ribbon Panel of experts did a study of the air program. Among their major recommendations were that the personnel strength of the Air Program be set at 420 positions in the air support branches by FY 1987 and 80 in the so-called C3 (communications, command, and control centers) at Tyndall Air Force Base and March Air Force Base. Currently, the Air Program is operating with a staff of about 250 people. The so-called "Siler" report also recommended that Customs continue to beef up its interceptor tracker fleet of aircraft and improve both its surveillance and communications capabilities. They estimate that to start this process it will cost at least $42.1 million in FY 1985, plus another $20 million to cover the cost of personnel.

QUESTION: What portions of the "Siler" Report will you be able to implement with your $17.1 million Air Program budget? Tell us what pieces if you are able to do anything.

ANSWER: First, the Treasury Department never intended an operating level of $17.1 million for the Air Program. The budget request was based on a $28.1 million operating level, with $11 million to be provided by Department of Defense. Because the $11 million in Department of Defense funding will not be availble, the Department is in the process of submitting a budget amendment to provide for this funding. In addition, the recent decision to fund a third aerostat for the Bahamas will further increase this projected FY 1985 operating level of approximately $4 million.

Second, the Customs Service has already implemented a number of the "Siler" report recommendations. These include centralized operational control through the East and West Directors, Air Operations Divisions. These field directors report directly to the Director, Office of Patrol. A lease for four additional high performance aircraft has been signed. Six positions have been manned, office and operations facilities have been acquired, and equipment is being installed to bring the East and West C^3I's (known as ROCC Sites) to operational status before the end of this fiscal year.

Certain elements of the "Siler" report have been identified for implementation in FY 1985: Phase II of the continuing implementation of the East and West ROCC, at an estimated cost of $200,000; and the continuation of the lease of four high performance aircraft, at an estimated cost of $4 million. This $4 million figure includes both lease and operational and maintenance costs.

As for other operational projects outlined in the "Siler" report, Customs will review them as part of an overall NNBIS review of air interdiction efforts. as you know, the Siler report called for a number of changes, including the role of Customs in the detection functions. Before proceeding with individual initiatives, we wish to review the overall strategy. Projects deserving priority implementation will be undertaken using resources forced by greater efficiencies in other programs. We will, of course, keep the Congress informed.

Finally, it should be noted that the Siler report is in the nature of an advisory opinion as to what should be done in the Air Program. While some of the recommendation are excellent and have been adopted, others require further study and may or may not be adopted.

SECRET SERVICE STAFFING

Mr. Secretary, last year this Committee, the Congress, and the President approved funding for 175 new special Secret Service agents--primarily to address the increasing Secret Service workload in the areas of Presidential, candidate, and dignitary protection, and terrorism. The Congress and the President also approved 100 support personnel over the budget last year. Your budget for fiscal 1985 fails to fund those fiscal 1984 new positions next year. With no 1985 money to pay for those slots, Secret Service has been essentially precluded from hiring the new people we directed them to hire last year. Frankly, I consider this to be a back-door way of circumventing the intent of Congress.

QUESTION: Why have you recommended that the new agent and support positions, approved by Congress and the President last year, not be funded in fiscal 1985?

ANSWER: In addition to 50 agent positions that were supported by the Administration in the FY 1984 budget, Congress added 275 positions (175 agents and 100 support personnel), although these were not requested by the Administration. This is in addition to the 200 agent positions Congress provided in FY 1983.

As you know it takes several years for an agent to be trained and fully productive. Thus, the 200 Agents provided in FY 1983 will just be reaching their full productivity in FY 1985 and FY 1986. The fully productive workforce in FY 1985 will be larger than in FY 1984. Before we hire more agents I think it important that we first see the impact of the 200 agents provided in FY 1983 and the additional 50 provided in FY 1984.

The Secret Service is doing an outstanding job in controlling counterfeiting and check and bond forgery. With proper case selection and with the addition of the 250 agents to the fully productive work force, I believe the Secret Service will continue this fine investigative jurisdiction. These agents will also be available as needed to support the protection mission.

With regard to the added 100 support positions, it is felt that continuing these positions in FY 1985 would be counter productive to the Administration's efforts to reduce administrative overhead government-wide through consolidation of functions and improved equipment. The Secret Service needs to make these efficiencies also.

OFFICE OF THE SECRETARY BUDGET: OMB CUTS

For the Office of the Secretary budget, you are requesting $84,242,000, an increase of $18.5 million or 28.1 percent over the amount we appropriated for your activities last year. Included in your request is $5.7 million for repairs to the Treasury Annex, and $2.4 million for replacement of an obsolete Univac mainframe computer.

According to the table after page 3 of the December 8th McNamar letter to Stockman, Treasury appealed an OMB cut of $11.1 million and 98 positions for the Office of the Secretary budget, Mr. McNamar says on page 3 of the letter that "...further personnel cuts would seriously hamper our major policy and management functions."

Obviously, OMB seems to think that you can do "more with less", the same way Customs and Secret Service are being asked to do "more with less."

QUESTION: What would be the specific effects on Office of the Secretary functions if we were to hold you to OMB's original "mark", cut the account by $11.1 million and 98 positions, and use a portion of that amount to restore Customs and Secret Service positions and funding in FY 1985?

ANSWER: If the Office of the Secretary (OS) were cut by $11.1 million and 98 positions, OS would have to eliminate 98 positions currently filled in order to reach its reduced staffing level. This would necessitate a reduction of $3.7 million in personnel compensation (salaries and benefits) as a result of the position reduction. In addition, $7.4 million in other costs would have to be eliminated. Specifically, we would not be able to upgrade the mainframe computer which is approaching obsolescence, and we would not be able to renovate the Treasury Annex Building.

If this were to happen, it would have the following impact:

- We would have to eliminate 98 currently filled positions by attrition or, if attrition is unsuccessful, by a reduction-in-force (RIF). In a RIF, approximately 3 times as many employees, or 300, would be affected by the elimination of positions, downgrading or bumping. Either attrition or a RIF, therefore, would cause a disruption of staff and normal office procedures and result in understaffing that would not be conducive to the efficient management of the Department. Such a staffing reduction would have a negative impact on many Treasury programs such as:

- The President's tax simplification effort;

- Management direction and oversight of the Secret Service and Customs Service including the South Florida Tax Force which is a major concern of this Administration;

- Financial issues such as debt financing, the deficit issue and market analysis; and

- Treasury's efforts in the international arena such as recent negotiations with China or the international debt crisis.

-- The balance of the $11.1 million reduction would be obtained through the following actions:

- The upgrading or replacement of the mainframe computer could not occur. The current mainframe represents nine-year-old technology and is rapidly approaching obsolescence. It must be upgraded if the Treasury Department is to be able to respond to the increasing workload demands placed upon the mainframe. Upgraded equipment will allow more users, faster processing time and larger econometric and statistical models.

- The Treasury Annex Building could not be renovated. The Annex was built in 1919 and has not had any major renovation since that time. A major rehabilitation of the building's heating, ventilating, airconditioning, electrical and lighting systems will have to be faced in the next three to five years. The Bureau of Government Financial Operations (BGFO), which occupies the upper six floors of the building, is planning to vacate the Annex to centralize its operations elsewhere. The BGFO move provides the Office of the Secretary with the ideal opportunity to renovate the building while it is unoccupied. This renovation is necessary to modernize the building and to correct structural deficiencies.

OMB CUTS TO IRS BUDGET

Senator DECONCINI: Mr. Secretary, you are requesting $3,531,859,000 for IRS in FY 1985, an increase of $267.1 million or 8.2 percent over the amount we appropriated last year. Among other things, your IRS budget calls for $175 million more for mandatory cost increases, $64 million for data processing enhancements, and $52 million more for "containing the tax gap." These would be offset in part by certain productivity savings.

In the formal Treasury appeal to OMB on December 8th of last year, Mr. McNamar requested restoration of $95.5 million and 420 positions that OMB had cut from Treasury's initial request. It appears that you got most of that back at the expense of Customs and Secret Service.

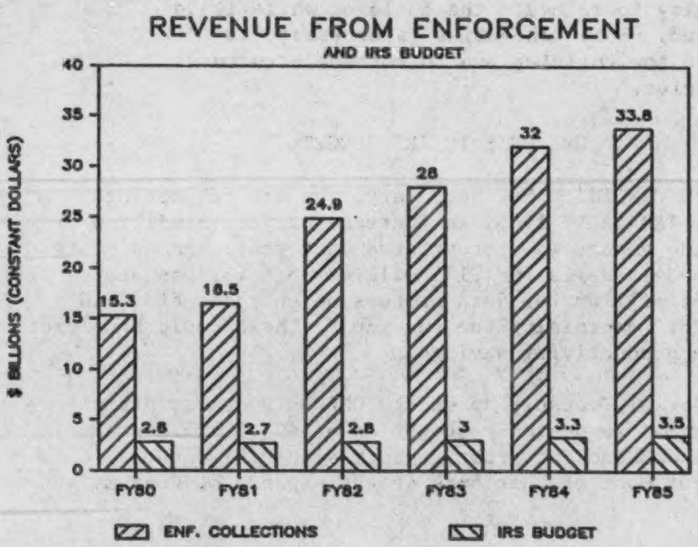
Between fiscal 1982 and 1984, this Committee has provided IRS with nearly 8,700 new positions and almost all of its requests for ADP improvements.

What would be the specific effects on IRS programs if we were to hold you to OMB's original "mark", reducing your budget request for IRS by $95.5 million and 420 positions and use a portion of this to restore Customs positions and funding for FY 1985? You would still be getting over $170 million more than you had last year at IRS.

Secretary REGAN: We did, indeed, request the restoration of $95.5 million and 420 positions which OMB cut from the IRS budget for fiscal year 1985. Only $45.7 million and 280 positions were subsequently approved. Of this amount, $19 million was for essential ADP modernization and $26.7 million was for mandatory employee health benefits and rate increases in telecommunications.

The IRS budget request of $3.5 billion was set after careful review. Most of the increase ($236 million) is needed to cover uncontrollable costs -- the 3.5% pay raise, including the pay supplemental in FY 1984 of $60.8 million; employee benefits; FTS and other communications; printing and mailing tax forms; and annualization of ADP equipment installed this year, including the automated collection system. The balance ($31 million) is to continue ADP modernization and redirect staff savings into efforts aimed at containing the tax gap of over $80 billion. These investments in modernization and tax compliance are essential for IRS to continue collecting taxes -- almost $750 billion expected in FY 1985.

As the following chart shows, the IRS has been able to dramatically increase revenues collected from direct enforcement of the tax laws while its overall budget has remained stable over the last few years. It would be unwise to cut our primary revenue-producing agency at a time when the overall budget is so out of balance.



EXECUTIVE OFFICE OF THE PRESIDENT

COMPENSATION OF THE PRESIDENT; THE WHITE HOUSE OFFICE; THE OFFICE OF ADMINISTRATION; SPECIAL ASSISTANCE TO THE PRESIDENT; COUNCIL OF ECONOMIC ADVISERS; OFFICE OF POLICY DEVELOPMENT; AND THE NATIONAL SECURITY COUNCIL

STATEMENT OF JOHN F. W. ROGERS, ASSISTANT TO THE PRESIDENT FOR MANAGEMENT AND ADMINISTRATION, AND DIRECTOR OF THE OFFICE OF ADMINISTRATION

ACCOMPANIED BY:

THOMAS K. LEWIS, DIRECTOR, AUTOMATED SYSTEMS DIVISION
URSULA H. PEARSON, DIRECTOR, FINANCIAL MANAGEMENT DIVISION
RONNIE R. RASMUSSEN, BUDGET OFFICER

OPENING REMARKS

Senator ABDNOR. The subcommittee will come to order.

Our next witness is Mr. John Rogers, Assistant to the President for Management and Administration, and Director of the Office of Administration.

Mr. Rogers will present testimony for the Executive Office of the President which includes the following accounts: Compensation of the President, the White House Office, the Office of Administration, Special Assistance to the President, Council of Economic Advisers, Office of Policy Development, and the National Security Council.

We thank you and your party for joining us today, Mr. Rogers.

We are delighted to have you here, and we know you represent a very, very important part of Government, and your budget is very important to us.

So, you may proceed in any fashion you care.

INTRODUCTION OF ASSOCIATES

Mr. ROGERS. Thank you, Mr. Chairman.

I would like to first introduce the witnesses accompanying me today, and my associates in the Executive Office of the President. On my right is Tom Lewis, who is Director of the Automated Systems Division of the Office of Administration, on my left is Ursula Pearson, Director of Financial Management for the Executive Office of the President, and to her left is Ron Rasmussen, the Budget Officer of the Office of Administration.

This afternoon is the fourth time that I have appeared before you and the committee to discuss the appropriation needs of the Executive Office of the President, and I am pleased to have the opportunity to present to you what we feel is the funding level necessary to support the Nation's Chief Executive.

PREPARED STATEMENT

I am prepared to discuss the fiscal year 1985 appropriations for the Executive Office of the President, the accounts you specifically mentioned, and with your permission I will submit a detailed statement for the record, and summarize these accounts.

Senator ABDNOR. That will be fine. The written statement will be made a part of the record.

[The statement follows:]

STATEMENT OF JOHN F. W. ROGERS

Compensation of the President

The Fiscal Year 1985 budget request for Compensation of the President is $250,000. This includes $200,000 for the direct salary of the President as authorized by 3 U.S.C. 102. This amount has remained constant since 1969. In addition, the President receives a $50,000 expense account for official expenses; any unused portions revert to the Treasury. This expense account is not considered as taxable to the President.

The White House Office

The mission of the White House Office (WHO) is to ensure the most efficient and cost effective assistance possible to the President of the United States.

The 1985 appropriation request before you is for $24,985,000; this is a 6.7 percent increase ($1,559,000) over the current budget of $23,426,000. These funds will provide for 322 full time permanent positions, the same level as authorized for Fiscal Year 1984. The projected increase is comprised of three major areas: personnel, office space, and other expenses associated with office operations.

In the area of personnel compensation and benefits, an increase of $526,000 will be necessary to cover the annualization of those pay and benefit increases included in our supplemental appropriation request, and other personnel-related cost increases.
The estimate of space rental (SLUC) charged by the GSA for our offices in the East and West Wings of the WHO and in the Old Executive Office Building will require an additional $610,000 in FY 1985. This accounts for nearly 40 percent of the total budget increase and does not represent an increase of space occupied by White House offices. Finally, other areas of on-going office operations, such as rents and utilities, supplies, printing, and other contractual services will require an increase of $423,000 to meet the usual cost increases associated with inflation and other cyclical workload changes.

Concurrent with the Fiscal Year 1985 request, we are requesting a Fiscal Year 1984 supplemental appropriation in the amount of $596,000. These funds are necessary for the January 1984 3.5 percent general pay raises and the changes in the Government's share of contributions to Social Security for new employees.
The budget request before you will provide the continued essential support and assistance to the President which is vital to the conduct of his duties and responsibilities as Chief Executive of the Nation.

Office of Administration

The annual Appropriation Request of the Office of Administration (OA) would enable the agency to provide common administrative support and services to the White House and the agencies within the EOP.

Before I address the Fiscal Year 1985 request, I would like to share with you and the Committee some of our accomplishments.

During the last three years, I have placed increasing emphasis on our ADP program. I believe firmly that this investment has yielded significant overall efficiency and cost savings for the components of the EOP, the White House, and the government as a whole. In 1983, as part of the planned central computing upgrade, we were able to install a second mainframe computer in our facility. This milestone expanded greatly our information processing capabilities while providing more timely and effective service to our customers. Concurrently, we were able to enhance the physical security of this facility to ensure its operational capability to process classified material. We also have conducted an in-depth analysis of the Executive Office of the President Computer Center to determine its vulnerability in the event of a major disaster. I want to thank you and the members of this Committee for your understanding and support of this important program and the initiatives we have undertaken.

I would like to address one other area which I feel demonstrates the benefits which accrue to a centralized administrative concept. To ensure EOP-wide compliance with the Financial Managers Integrity Act of 1983, a team was established within the OA which provided training to the various EOP agencies in their assessment of internal controls and assistance in fulfilling the reporting requirements of the Act itself.

The Fiscal Year 1985 Appropriation request for the OA is $16,172,000 or an increase of $1,715,000 over the current proposed level of $14,457,000. This increase is comprised of three factors: $638,000 is required as a result of the reassessment of rental rates for space in the New Executive Office Building; $578,000 is necessary to maintain OA's current level of administrative support; and $499,000 is requested for one planning and two hardware requirements for the Automated Systems Division. This latter sum is comprised of the following: $250,000 for Phase II of our Contingency Planning/Risk Management program and funding in the amount of $249,000 to provide for the lease costs of one Disk Control Unit, four disk drives, and an additional high-speed laser printer.

In addition to appropriated funds, we are projecting estimated reimbursements from EOP clients for ADP systems development work in the amount of $2,250,000.

In part, funds will provide for 166 permanent positions; 22 of these are funded by reimbursements. Except for an increase of 6 reimbursable positions to the existing 16, the Fiscal Year 1985 staffing level remains unchanged.

Concurrent with our 1985 request, we are seeking funding in the amount of $162,000 for our Fiscal Year 1984 pay supplemental. This is required to meet the costs associated with those pay raises which became effective in January, 1984.

Special Assistance to the President

The appropriation request for Special Assistance to the President asks for funds to enable the Vice President to provide assistance to the Chief Executive. His assistance includes both directed and special Presidentially-assigned functions. Additionally, the Vice President, through Cabinet membership and White House contact, is informed on a continual basis of Presidential responsibilities and, in the President's absence, serves as Chairman of the Cabinet.

In addition to his current Presidential assignments, which are enumerated in our budget request, the Vice President serves as an advisor to the President on matters of national importance and assists in ceremonial functions and in the conduct of international affairs.

The 1985 appropriation request is $1,663,000. This represents an increase of $57,000 (or 3.5 percent) above the proposed level of $1,606,000 for FY 1984. These funds will provide for a staff of 22 full-time permanent positions, the same level as authorized for FY 1984.

The funding increase is primarily composed of two factors. The first is $33,000 for personnel related costs of which $23,000 is for the annualized portion of the FY 1984 pay supplemental. The second is $20,000 needed to meet the expanding travel requirements and increased costs incurred by the Vice President and his support staff in the conduct of Presidentially-assigned activities.

Concurrent with our 1985 request, we are seeking funding in the amount of $13,000 for the FY 1984 Pay Supplemental. This amount represents 48 percent of the projected costs associated with pay raises which became effective in January 1984.

In closing, this request continues to reflect the Vice President's commitment to the President's efforts and is necessary so that he might fulfill these important responsibilities.

Council of Economic Advisers

The Council of Economic Advisers respectfully requests an appropriation of $2,560,000 for Fiscal Year 1985. This request represents an increase of $67,000 over the current proposed level of $2,493,000. In part, these funds will provide for 34 full time positions and 4 others; this is the same number of positions as was approved for Fiscal Year 1984. Concomitant with our 1985 request, we are seeking funds in the amount of $29,000 for our Fiscal Year 1984 pay supplemental.

The majority of the requested increase is for personnel compensation to cover pay increases required for the January 1984, 3.5 percent General Schedule pay raise, the lift of the Executive Pay Cap, and the government's share of contributions for related benefits.

The appropriation we have requested for Fiscal Year 1985 provides what we feel is a realistic level of support for the Council; it reflects also our commitment to producing the best possible work in the most effective manner.

Office of Policy Development

The Office of Policy Development (OPD) is responsible for providing advice and assistance to the President of the United States on economic and domestic policy matters. The budget request for Fiscal Year 1985 is for the salaries and expenses necessary to meet these responsibilities.

The OPD has policy responsibility for a broad range of subjects including health and human resources, energy, agriculture, natural resources, commerce and trade, legal policy, management policy, economic affairs, drug abuse, and other domestic matters. It also disseminates information on policy matters to senior Administration officials.

The OPD is organized primarily around the President's Cabinet Council structure. Members of its staff serve as the Executive Secretary for each of the Cabinet Councils. Additionally, administrative support for the Councils is provided by OPD. Such is provided in the areas of Planning and Evaluation, Cabinet Affairs, and President's Economic Policy Advisory Board.

The budget request for Fiscal Year 1985 is $3,020,000. The budget estimate for Fiscal Year 1984 is $2,904,000. This represents the authorized amount of $2,861,000 and a supplemental request for $43,000 to provide for part of the estimated cost of the 3.5 percent cost-of-living increase.

The increase between the Fiscal Year 1984 budget estimate and the request for Fiscal Year 1985 is $116,000 or 3.9 percent. Personnel costs account for $105,000 or over 90 percent of the increase. The remaining $11,000 represents the net cost of minor changes in non-personnel operating expenses.

Direct personnel costs are 77 percent of OPD's budget, or $2,335,000. Charges by the General Services Administration for office space in the Old Executive Office Building are $272,000 or 9 percent of the budget. Travel is $60,000 and accounts for less than 2 percent of the request. The remaining 11 percent, or $353,000 is for office support.

The budget includes a request for a supplemental appropriation of $43,000 for Fiscal Year 1984 to provide for part of the 3.5 percent cost-of-living increase which was effective in January 1984 and for the other mandatory changes in the employer's contribution to employee benefits. The computed full cost of this increase for Fiscal Year 1984 totalled $86,700.

The requested supplemental of $43,000 reflects an absorption of $43,700 or slightly over half of the estimated increase.

In summary, OPD is continuing to perform an important role in assisting the President. I believe that this budget request reflects an efficient approach to fulfilling this role.

National Security Council

The National Security Council (NSC) was established by law after World War II to provide the President with a review and decision support mechanism for developing policies relating to the national security. The structure of the NSC system is conducive to the coordinated development, presentation, and implementation of policy decisions. This system has proved effective in dealing with problems in an increasingly complex and ever-changing world.

Today, you are considering a request for $4,605,000 for the expenses of the NSC. This appropriation would fund the professional staff and cover the general operating expenses of the NSC. Included also is a request for three additional full time permanent positions. These positions are required for clerical support to the staff; approval of them would enable the Council to reduce its current number of detailees. In addition, the appropriation provides for operation of the President's Intelligence Oversight Board and the President's Foreign Intelligence Advisory Board.

This budget request also includes funding in the amount of $55,000 for a supplemental appropriation for Fiscal Year 1984. These funds are required to offset the various cost increases associated with the January 1984 pay raise.

BIOGRAPHY OF JOHN F. W. ROGERS

John Rogers was raised in Seneca Falls, New York and received his Bachelor of Arts degree in Public Affairs from the George Washington University in 1978. While attending the University, Mr. Rogers worked full time in the Ford White House as an assistant to the Director of Communications. He worked on the staff of the Senate Republican Policy Committee from January until November 1977 when he left to help launch the magazine, Public Opinion, at the American Enterprise Institute for Public Policy Research (AEI). He worked on the editorial staff of the magazine until he moved into the administrative ranks of the Institute. In September 1979, he was appointed Assistant to the President for Administration and continued in that capacity until he left AEI in November 1980.

During the Presidential transition, Mr. Rogers was Executive Assistant to the Director of the White House transition team. He was responsible for reviewing the administrative operations of the White House.

Mr. Rogers joined the Reagan White House staff on Janaury 20, 1981. The President appointed Mr. Rogers Special Assistant to the President for Administration and Director of the Office of Administration. On February 1, 1982, the President appointed Mr. Rogers to Deputy Assistant to the President for Management.

On June 1, 1983, the President appointed Mr. Rogers Assistant to the President for Management and Administration with overall administrative responsibility for operations within the Executive Office of the President.

Mr. Rogers represents the President of the U.S. on the Board of Trustees of the U.S. Capitol Historical Society and is a member of the Board of Trustees for the National Building Museum.

BIOGRAPHY OF THOMAS K. LEWIS

Thomas K. Lewis, Jr., is the Director of the Automated Systems Division for the Executive Office of the President, Office of Administration. He has served in this capacity since September 1982.

Mr. Lewis was raised in Pennsylvania and received his Bachelor's Degree, Magna Cum Laude, in Business Administration from the University of New Haven in Connecticut. He received his Master's Degree in Computer and Information Science from the same school. Mr. Lewis also attended law school at the University of LaVerne in California. He is the recipient of several academic scholarships and awards.

Mr. Lewis worked for the Burroughs Corporation from 1976 until 1980 in the areas of computer systems development and administration. He joined Marriott Corporation in 1980 as the Director of Management Information Systems for Marriott Hotels and was employed by Marriott until his appointment in the Executive Office of the President.

Mr. Lewis has lectured at several universities, including California State University, California State Polytechnic University, The University of New Haven, Cornell University, the University of Massachusetts.

BIOGRAPHY OF URSULA H. PEARSON

Ursula H. Pearson is the Director for Financial Management for the Executive Office of the President, Office of Administration. She has served in this position since April 1979. She is responsible for Budget, Accounting, Travel, Payroll, and Imprest Fund for the 11 appropriations of the Executive Office of the President, including the White House.

Mrs. Pearson started her government accounting career in January 1968 with the Department of the Interior, National Park Service. In 1971, she transferred to the Office of Naval Research as an operating accountant. In 1975 she was assigned to the Navy Material Support Activity as a Systems Accountant in charge of financial systems development for major Navy accounting systems.

Mrs. Pearson was born on August 31, 1924 in Breslau, Germany. She received her degree in Languages in 1947 from the University of Berlin with a major in English. From 1948 to 1951 she owned a translating and interpreting office in Berlin. In 1951 she came to the U.S. where she was the proprietor of a restaurant in Long Island, New York. She served with the Air Force in a civilian capacity in Wiesbaden, Germany from 1960 to 1966. She attended SW State College in Oklahoma and continued her accounting studies at the University of Virginia. She is a member of the Association of Government Accountants and member of the Military Comptrollers Association. Mrs. Pearson and her husband, John, live in Alexandria, Virginia.

BIOGRAPHY OF RONNIE R. RASMUSSEN

Ronnie R. Rasmussen is the budget officer for the Office of Administration, Executive Office of the President and has served in this capacity since August 1981.

Prior to his appointment to this position, Mr. Rasmussen was Deputy Chief of the Financial Management Division with the U.S. Secret Service, an organization in which he has served in varying financial related positions since 1973. Mr. Rasmussen specifically assisted in the automation of their financial accounting system, served as the Staff Assistant to the Assistant Director for Administration and in addition, acted as the Administrative Coordinator for the 1980 Presidential Campaign.

Mr. Rasmussen was born January 19, 1946, and raised in Akron, Ohio. While serving in the U.S. Navy, he was assigned to the White House Communications Agency from 1965 to 1969. He then worked for the National Security Council while attending the American University, where he obtained his Bachelor of Science degree in Accounting in 1973.

Mr. Rasmussen has been a member of the Association of Government Accountants since 1973, and is a recipient of the Presidential Service Badge and Certificate.

OFFICE SPACE RENTAL RATES AND PAY SUPPLEMENTALS

Mr. ROGERS. Before I begin, Mr. Chairman, I would like to highlight two pressures which are forcing increases in several of these accounts.

The first is in the reassessment of rental rates for office space in the East and West Wings of the White House and the New Executive Office Building. The second relates to the annualization of recent cost-of-living increases to Federal employees.

I will turn to these later in my testimony. However, at this time I would like to point out that in addition to the fiscal year 1985 budget estimates, we are requesting funding for the fiscal year 1984 pay supplementals. Although we have requested these funds, I would like to point out to the subcommittee that my office is conducting a midyear review to determine actual need, and we are prepared to return to the committee to ask for rescission in certain cases. I will be in touch with the committee regarding that.

Senator ABDNOR. Fine.

STATEMENT OF JOHN F. W. ROGERS

Mr. ROGERS. I will now summarize each account.

COMPENSATION OF THE PRESIDENT

The fiscal year 1985 budget request for compensation of the President is $250,000. This includes $200,000 for the direct salary of the President, as authorized by 3 United States Code 102. In addition, the President receives a $50,000 expense account for official expenses, with any unused portion reverting to the Treasury. This expense account is not considered taxable to the President.

WHITE HOUSE OFFICE

The 1985 appropriation request is $24,985,000. This represents an increase of $1,559,000. Of this amount, approximately 40 percent is required for the increase in rental rates for space in the East and West Wings of the White House. This request will provide for continued support and assistance to the President in the conduct of his official duties and responsibilities.

OFFICE OF ADMINISTRATION

The mission of the Office of Administration is to provide common administrative support and services to the White House and the agencies of the Executive Office of the President. This support includes the operation of the Executive Office of the President computer center. We are requesting $16,172,000, and other than the funds required for the reassessment of rental rates for space in the New Executive Office Building, we are seeking funding for three requirements of the Automated Systems Division. Two are equipment related, and are needed to support expanding demands and projected new applications, and the third is funding which will permit us to conduct phase II of our disaster recovery plan.

SPECIAL ASSISTANCE TO THE PRESIDENT

These funds enable the Vice President to provide assistance to the President which encompasses directed and special presidentally assigned functions. Additionally, the Vice President, through Cabinet membership, and association with senior White House staff is informed on a continual basis regarding Presidential responsibilities and, in the President's absence, serves as Chairman of the Cabinet.

This request is $1,663,000, and is necessary for the Vice President to continue to fulfill these important responsibilities during fiscal year 1985.

COUNCIL OF ECONOMIC ADVISERS

The Council analyzes the national economy, advises the President on economic developments, and recommends policies for economic growth and stability.

In addition, the Council appraises economic programs and policies of the Federal Government, and assists in the preparation of the annual Economic Report of the President to the Congress.

The Council of Economic Advisers' fiscal 1985 appropriation request is $2,560,000. This will enable the Council to fulfill its important analytical and advisory functions.

OFFICE OF POLICY DEVELOPMENT

The role of the Office of Policy Development is to provide the President with advice and assistance on domestic policy matters. The Office of Policy Development also provides support for several other functions within the Executive Office of the President, including planning and evaluation, Cabinet affairs, and the President's Economic Advisory Board. Funds in the amount of $3,020,000 are being requested for the continuation of these responsibilities during fiscal year 1985.

NATIONAL SECURITY COUNCIL

The function of the Council is to advise the President on the integration of domestic, foreign, and military policies relating to the national security. This appropriation provides for professional staff-related operating costs. Additionally, these funds provide for the operation of the President's Intelligence Oversight Board and the President's Foreign Intelligence Advisory Board.

The Council's appropriation request for fiscal year 1985 is $4,605,000. Included in this request is authorization for three additional full-time permanent positions. These positions are required for additional secretarial support.

To conclude my statement, I would like to emphasize that these budget requests reflect the minimum resources necessary to finance the unique mission of each agency of the Executive Office. Each has made a genuine effort to curtail costs while maintaining its effectiveness and ability to fulfill its mission adequately. We believe significant economies have been achieved through the use of advanced computer technology, communications, and office automation equipment.

During the last 3 years, I personally have placed a special emphasis on the effective management of automatic data processing. I believe firmly that this investment has, and will continue to yield greater overall efficiency and cost savings for the Executive Office of the President and the White House.

At this time, I would like to thank you and members of the committee for your understanding and support of the requirements of the Chief Executive, and particularly for your support over the past 3 years for our automated data processing initiatives.

This completes my prepared portion of the text, and I am willing to answer your questions.

Senator ABDNOR. We want to thank you, Mr. Rogers, for the fine job you are doing down there, you and your staff. It runs very smoothly.

STRIDES IN EOP ADP

Now, the Executive Office of the President has made great strides in the last 3 years toward becoming a more efficient support agency for the President, and I must say I am very happy the office is coming into the 20th century. Automation is important, and the President needs that support. So, before I begin my questions, I just want to state for the record that John Rogers does deserve our thanks for his effort in the modernization. He has had to make some very difficult decisions, which I am sure bothered him, hoping they would pay off, and they have.

I have had the pleasure of going through there and seeing for myself. So we do thank you for the job you are doing.

Mr. ROGERS. Thank you, Mr. Chairman.

ADP INITIATIVES

Senator ABDNOR. ADP has received the most emphasis in the past few years. Could you briefly outline the changes that have been made, and how we have come from where to where? I know we have made good strides.

Mr. ROGERS. Certainly, Mr. Chairman. I think you appropriately put it when you stated that the Executive Office of the President, particularly the White House, has inched its way into the 20th century.

We have placed a great deal of emphasis in two areas: First, the mainframe support for general applications, or our main computer center. We have expanded the capacity over the past few years, we have expanded the memory that is necessary to carry on new applications, and we have experimented with a great deal of new equipment in response to that demand.

Second, we have progressed in just about every office that I am testifying for today in the area of office automation. We have taken the organization, looking at the Executive Office as a whole, and really placed a great deal of emphasis on hardware and machinery, but doing so in a standardized manner rather than on an ad hoc basis, or having each agency individually selecting what is necessary, we have emphasized planning; and, therefore, we have moved in both of these directions, increase in equipment and in planning, to where we are today.

There is no question that there has been an increase in the amount of money that has been spent in this area. We have requested it because we feel confident that in the long run it is yielding overall efficiency. We have not presented ourselves to this committee over the past 3 years asking for great increases in personnel to meet the expanding needs of a modern-day Presidency. We feel that the area of office automation has helped us to keep our personnel levels where they are.

Senator ABDNOR. This has made a great difference in your day-to-day operations, right?

Mr. ROGERS. I think it has added a great deal to the productivity of every individual, whether it is secretarial or midlevel personnel.

FUTURE ADP INITIATIVES

Senator ABDNOR. What about down the road in the future? The framework we have, is that going to be keepable, for building on in the future?

Mr. ROGERS. Well, the major expansion that we requested in fiscal year 1983 for the upgrade in the Executive Office of the President computer center now has the capacity for on-the-floor upgrade. It is unlikely that we will be coming to the committee within the next 2 or 3 years asking for major increases to bring new and greater capacity to the center. We have that on-floor capability of building.

We have some additional requirements, particularly in the White House Office, for more equipment and display writers. We will be coming forward with the necessary requests as the need arises. Some we do lease, and some we wish to purchase.

So often, it tends to be misleading when you think strictly in terms of purchasing and leasing equipment in the area of automation. This is just what you are talking about. It is not just a piece of hardware or a piece of software. There are all sorts of other peripherals that we have to take into consideration to make all the pieces operate together on a coherent basis.

FIRE PROTECTION: SPRINKLER VERSUS FOAM-BASED SYSTEMS

Senator ABDNOR. This year's budget will be used to do what, implement phase II of the disaster recovery plan. Without a doubt, this is going to be a very necessary improvement, but I said earlier, and I want to note for the record, that I recently walked through the facility in your New Executive Office Building, and needless to say I was very impressed, not only with the improvements, but the physical plant as well.

One thing I might ask: You have a sprinkler system in there, haven't you?

Mr. ROGERS. Yes; that is correct, Mr. Chairman.

Senator ABDNOR. What would you do if that thing ever went off. For fire prevention, I know——

Mr. ROGERS. That is a particular concern of ours. We think that our computer center has reached the point where foam-based systems ought to be used in handling fires as opposed to the water-treatment systems. We are in the process of appealing to GSA for a change from their current water-based system.

I am quite concerned that a failure, or something which may begin to set off the water-based system will end up destroying a large volume of our equipment and, in essence, crippling us, so we want to push toward a foam-based system.

Senator ABDNOR. Is that an extensive changeover?

Mr. ROGERS. I am not exactly sure of the cost. My real concern is getting GSA to consider it.

Senator ABDNOR. From what I saw, and I am not an assessor of equipment, but if we could help you with it I think we ought to be concerned, because sometimes smoke sets that stuff off. I mean, it doesn't even have to be a fire. I can't imagine what it would do.

Mr. ROGERS. I am not an expert in fire administration, and have never taken a course in it, but I don't think it takes a very sophisticated individual to recognize that in this day and age, when we have hardware, particularly high technological or electronic gear, that a water system to prevent a fire will end up destroying all the equipment. There won't be any recovery in that sense.

ABSORPTION OF PAY SUPPLEMENTALS

Senator ABDNOR. I know that in some accounts you are able to absorb some of the pay supplementals. I am always happy to see that, of course. What can those savings be attributed to, to all the automation?

Mr. ROGERS. Well, I wouldn't point to automation alone although that certainly would be a factor to be weighed. But what has primarily happened is that our personnel levels in just about every agency have been maintained at a low level. We have not filled vacancies, and if you look at the Executive Office of the President, particularly the White House, compared to a lot of the other agencies, it is such a labor-intensive organization that when you do have a drop in personnel, it has a great effect in terms of the budget.

So we found that since the time we submitted our original estimates of what we would need to cover the 3.5-percent increase across the board for Federal employees, that now we really may not need all those funds.

Some agencies have already absorbed 50 percent, which is included in the submissions that you see before you. We are hopeful that in some cases we can go the remainder, including those who felt they could not when their budget was submitted in January. But since the original estimates and certainly from January till now, it is apparent that there will be some savings.

Senator ABDNOR. I want to commend you for the fine job that you and your staff do.

OFFICE SPACE RENTAL RATES

The problem is SLUC, I guess, once again. It took the large portion. It is not a problem, but it is the large portion of your increase, isn't that right?

Mr. ROGERS. That is correct, Mr. Chairman. During the entire time that I have been associated with the Executive Office of the President, it has remained an enigma to me that the President has to pay rent on his office. Nevertheless, that is another increase that we have for the determined amount of space that we occupy.

In the White House, we have not increased the volume of space at all, but it is just for the reassessment in rates. As you know, every year I point out I don't understand how the basis of these assessments are made, but we have not changed it yet.

Senator ABDNOR. I again want to commend you and your staff with you today, and the rest of your staff at the White House, and tell you we think you are doing a fine job. I want to let you out without any problems at all and thank you for your appearance today.

Mr. ROGERS. Thank you very much, Mr. Chairman.

DEPARTMENT OF THE INTERIOR

NATIONAL PARK SERVICE

STATEMENT OF MANUS J. FISH, JR., REGIONAL DIRECTOR

ACCOMPANIED BY:

JAMES I. McDANIEL, ACTING ASSOCIATE REGIONAL DIRECTOR, WHITE HOUSE LIAISON

HAROLD H. MILLER, CHIEF, DIVISION OF PROGRAMING AND BUDGET

PREPARED STATEMENT

Senator ABDNOR. We have a couple of more witnesses. Our next witness is Mr. Manus J. Fish, Regional Director, National Park Service.

It is good to see you again.

Mr. Fish will present testimony on the executive residence at the White House regarding the fiscal year 1985 budget.

So, again, we welcome you and your group. Go right ahead and introduce your group, and proceed in any manner you care to.

As you know, your whole statement will be made part of the record.

[The statement follows:]

STATEMENT OF MANUS J. FISH, JR.

Mr. Chairman, and members of the Committee, I appreciate the opportunity to appear before you to present for your consideration the fund requirements for the maintenance and operation of the Executive Residence at the White House for Fiscal Year 1985.

The appropriation for this account for Fiscal Year 1984 is $4,550,000. we are requesting a supplemental appropriation of $82,000 for pay increases making a total of $4,632,000 this fiscal year.

An appropriation of $4,601,000, is required for Fiscal Year 1985, a reduction of $31,000 from the amount requested for FY 1984. This includes a decrease of $200,000 provided in Fiscal Year 1984 for continuation of the exterior restoration begun in Fiscal Year 1980, an increase of $30,000 for annualization of pay increases authorized in Fiscal Year 1984, $52,000 for other personnel services and $87,000 increase in normal operating expenses; consisting of an $8,000 increase for utilities; $17,000 for acquisition of equipment and period furnishings; $50,000 for contracted services; and $12,000 for supplies and materials.

Mr. Chairman, I shall be pleased to attempt to answer any questions you and other members of the Committee may have about the operation of the residence and the 1985 budget estimate before you.

FY 1985 Appropriation Summary Statement

This budget provides for the care, maintenance, repair and alteration, refurnishing, improvement, heating and lighting, including electric power and fixtures, of the Executive Residence at the White House and official and ceremonial function expenses of the President to be expended and accounted for as provided by 3 U.S.C. 105, 109-110, 112-114.

The appropriation for this account for Fiscal Year 1984 is $4,550,000. A supplemental appropriation of $82,000 is requested for pay increases effective in Fiscal Year 1984 making a total of $4,632,000 this fiscal year. An appropriation of $4,601,000 is requested for Fiscal Year 1985.

The FY 1985 budget provides for:

Decrease for exterior restoration project provided in the Fiscal Year 1984 budget	-$200,000
Annualization of pay increase authorized in Fiscal Year 1984	+ 30,000
Increased operating expenses	+ 87,000
Increased personnel costs	+ 52,000
Change from Fiscal Year 1984 request	-$ 31,000

Analysis by Activities
(Dollars in thousands)

	FY 1983 Amount Available	FY 1984 Amount Available	FY 1985 Amount Estimate	Increase (+) or Decrease (-) 1985 Compared with 1984
Operating Expenses	$3,941	$4,632	$4,601	$-31

Justification for Appropriation, Fiscal 1985
(in thousands of dollars)

Activity: Operating Expenses		1983 ACTUAL	1984 ESTIMATE	1985 ESTIMATE	INCREASE/ DECREASE
Operating Expenses	$	3,941	4,632	4,601	-31
Full-time Permanent Positions		(90)	(90)	(90)	(-0-)
Total Compensable Workyears in Full-time Equivalents (FTE)		(88)	(89)	(89)	(-0-)

Authorization: 3 U.S. Code 105, 109-110, 112-114

Objective: To provide for the care, maintenance, repair and alteration, refurnishing, improvement, heating and lighting, including electric power and fixtures, of the Executive Residence at the White House, and official and ceremonial functions of the President.

Program:

The Usher's Office is staffed by the Chief Usher, 3 Assistant Ushers, and 2 support staff employees. It provides administration of the operation of the Residence. This requires coordination with the staffs of the Congress, the Executive Office of the President, the National Park Service, the Military, the United States Secret Service, the General Services Administration and other agencies.

A staff of 40 domestic employees accomplish general housekeeping, prepares and serves meals, greets visitors, and provides services as required in support of official and ceremonial functions. A staff of 32 tradesmen, including plumbers, carpenters, painters, on a single shift; electricians on a double shift; and operating engineers on a 24 hour basis, maintains and makes repairs, minor modifications, and improvments to the 132 rooms and the mechanical systems, and provides support for official and ceremonial functions.

A staff of 12 specialized employees provides services necessary to the operation of the White House and official and ceremonial functions including 4 florists, 3 curators, and 5 calligraphers.

The equivalent of 3 full-time workyears of extra staff above the ceiling for full-time permanent positions are hired under personal service contract agreements to provide additional help as required for official and ceremonial functions.

Current Accomplishments:

The White House is maintained as a home for the President and his family and to serve as a facility for official and ceremonial functions. Many of the rooms have been refurbished and redecorated and a number of historic items, paintings, and objects of art have been obtained for the White House collection.

The White House is open to public view Tuesday through Saturday in addition to some national holidays, the evening Candlelight Tours at Christmas, the Easter Monday Egg Roll, and spring and fall Garden Tours. During 1983 an average of

4,645 visitors toured the White House each day for 246 days. 35,784 people viewed the White House during the 1983 Christmas candlelight tours, and approximately 36,000 people participated in the 1983 Easter Egg Roll.

Historically, the White House exterior has been painted every four years prior to the Presidential Inauguration. In recent years frequent touch-ups have been required in-between painting due to the paint peeling and flaking. A study completed in 1980 by the National Bureau of Standards at the request of the National Park Service determined the many layers of paint, whitewash and other coatings on the sandstone walls of the White House was causing poor adherence. They recommended a restoration project to completely remove as many as 32 identified layers of paint, repair the stone and properly prepare the surface before applying the new paint. In 1980, this Committee approved funding and a contract was awarded to remove all the paint, perform stone repair and repoint on the east wall of the Residence, and clean and repaint the remaining exterior surfaces. This work was completed in 1981. Continuing inspections by the National Bureau of Standards and the National Park Service indicate that the restored areas will require less frequent painting, likely at 6 year intervals and possible 8 years. In fiscal 1984, Congress provided $200,000 to continue this exterior restoration by completing work on the North Portico and to paint the remaining three walls and clean the east wall. This work should be underway this spring. The restoration work will be done slowly and deliberately over a period of years so as to be sure to allow time to observe/monitor the results of the preservation work and adjust procedures as needed. Each segment will be scheduled so as to leave the White House in the best appearance for the Inauguration.

Major Changes: The following changes are requested in Fiscal 1985 to continue to provide for the normal operation and maintenance needs of the Residence:

1.	A decrease for the non-recurring project for exterior restoration of the Executive Residence by restoring the North Portico and painting the exterior	-$200,000
2.	Annualization of the Fiscal Year 1984 pay increases	+$ 30,000
3.	Increased personal services due to merit and step increases, for actual personnel benefits and for terminal leave for employees who will reach retirement eligibility in Fiscal Year 1985 and to fund a currently vacant Caligrapher position which was added to our ceiling in 1982	+$ 52,000
4.	Increased cost of utilities	+$ 8,000
5.	Increased costs of contracted services	+$ 50,000
6.	Increased cost of supplies and materials	+$ 12,000
7.	Increased cost for acquisition of equipment and furnishings	+$ 17,000
	Total	-$ 31,000

Identification code 11-0210-0-1-802		1983 ACTUAL	1984 ESTIMATE	1985 ESTIMATE
Direct Obligations:				
	Personnel compensation:			
11.1	Full-time permanent	2,373	2,508	2,558
11.5	Other personnel compensation	498	628	658
11.9	Total personnel compensation	2,871	3,136	3,216
	Other:			
12.1	Personnel benefits: civilian	276	314	316
21.0	Travel and transportation of persons	3	8	8
23.2	Communications, utilities, rent	172	217	225
25.0	Other services	199	431	281
26.0	Supplies and materials	348	440	452
31.0	Equipment	72	86	103
99.0	Subtotal direct obligations	3,941	4,632	4,601
99.0	Subtotal reimbursable obligations	812	898	1,029
99.9	Total obligations	4,753	5,530	5,630

Personnel Summary

	1983 ACTUAL	1984 ESTIMATE	1985 ESTIMATE
Total number of full-time permanent positions	90	90	90
Total compensable workyears			
Full-time equivalent employment	88	89	89
Full-time equivalent of overtime and holiday hours	10	10	10
Reimbursable:			
Total compensable work years:			
Full-time equivalent employment	3	3	3

INTRODUCTION OF ASSOCIATES

Mr. FISH. Thank you Mr. Chairman.

Senator ABDNOR. We are happy to have Mr. McDaniel and Mr. Miller with you.

Mr. FISH. Yes, sir. On my right is Jim McDaniel, the Acting Associate Regional Director for White House Liaison, and I might mention that Jim is acting, that Elmer Atkins, who had been in that position for 16 years, as Associate Regional Director, retired in December, and he will be sorely missed. He was here every year that we have been here to present the budget.

On my left is Mr. Hal Miller, the Chief of Budget.

Mr. Chairman, I appreciate the opportunity to appear before you to present for your consideration the fund requirements for the maintenance and operation of the executive residence at the White House for fiscal 1985.

FISCAL 1984 BUDGET

The appropriation for this account for fiscal 1984 is $4,550,000. We are requesting a supplemental appropriation of $82,000 for pay increases, making a total of $4,632,000 this fiscal year.

FISCAL 1985 BUDGET

An appropriation of $4,601,000 is required for fiscal 1985, a reduction of $31,000 from the amount requested for fiscal 1984. This includes a decrease of $200,000 provided in fiscal 1984 for continuation of the exterior restoration begun in 1980, an increase of $30,000 for annualization of pay increases, $52,000 for other personnel services, and $87,000 increase in normal operating expenses, which consists of an $8,000 increase in utilities, $17,000 for acquisition of equipment and period furnishings, and $50,000 for contracted services, $12,000 for supplies and materials.

Mr. Chairman, I will be pleased to try to answer any of your questions.

EXTERIOR RESTORATION

Senator ABDNOR. Very fine. We really don't have a great deal, because we know things are going well down there. There is some work going on, on the north portico, or at least it is slated to begin when, later this year?

Mr. FISH. Yes, sir. That is part of the $200,000 that the committee gave us in 1984, so that contract is underway, or will be underway very shortly, for exterior restoration.

If you recall, in 1980 when we did the—normally we do the painting of the White House just before the Presidential inauguration, every 4 years, and in 1980 when the committee gave us funding for that, we instituted a new restoration program. We had worked with the National Bureau of Standards for a number of years to see if there were some way to get the paint to stay on the surface, stone surface, longer.

Since the White House was constructed, there were 32 coats of paint, we found, on that surface. The National Bureau of Standards came up with a method to remove that. We tried that in 1980 on the east wall of the White House. It has proven very successful. We took it right down to the stone. We fixed the stone, repointed wherever we needed, and then put the paint meeting the specifications of the National Bureau of Standards back on there.

We haven't had to touch that, other than to clean it, and normally we had to go back, even during the 4 years, with our maintenance forces and patch up paint for a number of areas Now, the $200,000 that you gave us last year is being used for the north portico to do the same thing, and so we are taking a very careful approach, to do that to all sides of the White House.

Senator ABDNOR. Will that do it all, the $200,000?

Mr. FISH. No, sir. It will do that portion of the north portico, and then hopefully we would be back in another 3 or 4 years to take on another portion of the White House.

Senator ABDNOR. With regard to major work looking to the future, is there any great remodeling job, or jobs, coming up that you see down the road?

Mr. FISH. No, sir, not of any magnitude.

VISITATION

Senator ABDNOR. Last year, the average daily visitors traffic was 4,645 a day. Does this number remain fairly consistent from year to year?

Mr. FISH. It does, Mr. Chairman. Visitation runs around 1.1 or 1.2 million. In the bicentennial year, we did peak at 1.573 million. But normally that is about the average daily visitation. Of course, in the summertime it could be 6,000 to 8,000 that would go through in a day.

SECURITY

Senator ABDNOR. Your work is mostly with the facility itself. The facilities for the Secret Service, you have nothing to do with that other than—at the White House. Do you?

Mr. FISH. No; we work very closely with the Secret Service, and any requirements they may have in the White House, since it is considered a National Monument, and that is the Park Service's role, not the chief usher's. We do work very closely with them, and the chief usher's budget, which we are presenting, works extremely closely with the Secret Service. So if they have requirements on the grounds, the Park Service does it. If they have requirements inside, we may, through the chief usher, work with them.

Senator ABDNOR. Those cement block barricades they put around, is that your doing? Did that have to come through you?

Mr. FISH. Yes, sir, that did.

Senator ABDNOR. Did you have the funds to do that with?

Mr. FISH. Well, we were reimbursed by the Secret Service.

Senator ABDNOR. You were?

Mr. FISH. Yes, sir. It was the National Park Service maintenance force that did that, and I might comment, Mr. Chairman, that our maintenance force did an extremely fine job in doing that. They one day were out—for 2 days—they were out for 48 hours straight to put those barricades up, and they were commended by the Secret Service for their very diligent efforts.

Senator ABDNOR. Did you clean them up and make them look attractive?

Mr. FISH. Well, we tried to, rather than just put the Jersey barrier out there, to do something to it.

Senator ABDNOR. I will keep my eye on it as I go around from time to time.

Well, Mr. Fish, I think that takes care of all our problems that we are fortunate not to have. We are very pleased with the work that you do, and there is no need to hold you here. We thank you for your attendance today, and we will keep in touch with you.

Mr. FISH. Thank you very much.

Senator ABDNOR. Thank you.

ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS

STATEMENT OF S. KENNETH HOWARD, EXECUTIVE DIRECTOR

ACCOMPANIED BY:
FRANKLIN A. STEINKO, JR., BUDGET AND MANAGEMENT OFFICER
DOROTHY J. DICKERSON, FEDERAL RELATIONS ASSOCIATE

OPENING REMARKS

Senator ABDNOR. Next will be Kenneth Howard, Executive Director of the Advisory Commission on Intergovernmental Relations. I know he has been very patient in waiting. They say you keep the best to the last, Mr. Howard, so I wouldn't want you to think we were neglecting you. One good thing about being at the end, everybody is ready to take after you. They are worn out by the time they get to the final.

Mr. HOWARD. Mr. Chairman, you will get no objection from me as to our placement. I understand the process very well, and we appreciate this opportunity. The lights have gone, and so have the TV cameras; I think there are eight of us here enjoying this time together, so we particularly appreciate your personal interest.

Senator ABDNOR. Well, it is great. It is almost too much the other way. It has become a show, almost, I am afraid. It is interesting how you do a better job of getting your members out if there is a TV camera around us.

Mr. HOWARD. I am glad you said that, Mr. Chairman, and not I. [Laughter.]

Senator ABDNOR. Well, fine. Mr. Steinko is with you.

Mr. HOWARD. He is with me, yes, sir. He is always with me.

Senator ABDNOR. Proceed in any way you care to, Mr. Howard.

PREPARED STATEMENT

Mr. HOWARD. Thank you, Mr. Chairman. We did submit some written material to you, and I don't intend to repeat that. I want to highlight it, and kind of put it in context.

Senator ABDNOR. Fine. It will be made part of the record, though, the entire statement.

Mr. HOWARD. Thank you, Mr. Chairman.

[The statement follows:]

STATEMENT OF S. KENNETH HOWARD

Federalism is a uniquely American contribution to the art and practice of governance. It evolved almost exactly 200 years ago as we sought to establish a Nation out of 13 independent sovereignties, combining the strength unity affords with the protection against centralized tyranny that separatism provides. We are now in the midst of the 200th anniversary of what historians later came to describe as the "Constitutional period."

This bicentennial timing causes ACIR, the National Government's flagship institution in the field of federalism, to seek a small budget increase after a decade of paring its budget requests in real terms. In addition to continuing the work it has been doing for 25 years in improving relations among all levels and types of governments in this country, ACIR wants to focus attention on reappraising federalism as a way to govern in modern circumstances.

CURRENT ACTIVITIES EXTENDING INTO FISCAL YEAR 1985

The Commission is now engaged in a variety of studies and activities which will last well into the next fiscal year. They include preparing a report on city financial emergencies, implementing some of the findings from our recently completed 4-year study of State aid to distressed communities, and updating our recommendations on the role of the States in our Federal system. We will be working extensively on tax interrelationships to see how proposed Federal tax changes may affect the ability of State and local governments to sustain services at the levels they desire. We will be publishing a study of the nationalizing forces that are causing more and more domestic policies to be set entirely at the national level, especially the declining influence that State and local political parties seem to have in Washington. We will be updating and reissuing our catalog of Federal grants. We will produce a timely study on interlocal contracting for services and on transferring functions among governments. We will be releasing a study of changes in mass transit financing and operations and we will be studying ways in which American federalism can be rebalanced, including through constitutional amendments.

Because this is our 25th year, ACIR is undertaking several special activities that will extend into the next fiscal year. We are holding a series of hearings, workshops, panels and other discussions around the country in conjunction with major meetings of various State-local organizations. These sessions focus on what changes ACIR has helped bring about over the past quarter of a century and on the issues we should be analyzing in the near future. We will also be holding a special conference to which representatives of other Federal systems in the world will be invited to appraise what is happening to federalism as a form of governance around the globe.

The Congress has directed us to undertake three specific activities which will carry into next fiscal year. One of these is a study of cigarette bootlegging and of the potential effects of imposing a single national cigarette tax. We have also been directed to work with the Administrative Conference of the United States on a study of permitting practices, especially as they affect energy and port development projects. Finally, the Treasury Department was directed to undertake a series of studies when general revenue sharing was renewed. ACIR is among the organizations specifically listed in the legislation that are to be consulted and Treasury may contract with ACIR to do part of the mandated research.

In addition to these efforts, we will continue four regular parts of our research and publications program. We will provide annual updates of "Significant Features of Fiscal Federalism," and of State fiscal capacity using the representative tax system. We will publish the results of our annual public opinion poll on governments and taxes and continue issuing our quarterly magazine, Intergovernmental Perspective.

BICENTENNIAL ACTIVITIES

The underlying issues that faced our Founding Fathers in shaping a new Government are still with us because the centralizing and decentralizing forces shaping our system are both perennial and changing. The ability of our tripartite Government to allow participation at many levels while providing essential public services merits continuing examination, especially as part of our constitutional bicentennial commemoration. The "tall ships" for this bicentennial should include a thoughtful reappraisal and national debate of the issues that are shaping federalism today:

Does modern federalism protect or impede individual civil rights and individual freedom?

What is the proper allocation of responsibilities among the levels of government?

Should the constitution be amended and how?

Are our political parties still countervailing forces to centralization?

Is federalism compatible with the exigencies of a post-industrial economy that is ever more technologically based and international in scope?

For a national debate to be effective and to reach a broad spectrum of our citizenry, work must begin now. Citizenship education is an unending obligation of both the citizen and Government. We want to encourage discussion, learning, and understanding about the issues that surround federalism and our constitution. We believe they have profound contemporary significance.

We propose to seek foundation and other private aid to fund a variety of activities. We want to initiate a competition with awards for the best manuscripts updating the issues debated in the "Federalist Papers" and to publish the winners. We want to prepare materials for high school social studies classes and to stimulate a variety of presentations building on interests some educational television stations have already expressed to us. We want to explore having federalism selected as the high school debate topic for one of the years between 1986 and 1989. We would expect to provide materials, filmstrips, documents and the like to support such undertakings. We would also expect to encourage a variety of established and emerging citizen discussion forums.

OTHER CHANGES

With Federal grants to State and local governments declining relatively, State-local issues have come to the fore in intergovernmental relations, giving new relevance to our longstanding work on strengthening State and local governments. State-local issues are not based in Washington, D.C. Accordingly, the budget calls for: (1) Staff members to spend more time outside Washington, (2) reinforcing relationships with State advisory commissions on intergovernmental relations and similar organizations, (3) increasing technical assistance and other services to States and localities, and (4) holding more and more Commission hearings and activities outside Washington.

CONCLUSION

The forces reshaping American federalism are alive and well, no matter what happens to specific proposals for restructuring roles and responsibilities among the levels of government. The Commission has stayed extraordinarily busy and productive throughout its history. We expect to maintain that standard. In addition, we want to play a role in rekindling some of the adventure, intellectual ferment and creative statecraft that marked the constitutional period and to help our citizens understand that the eternal issues of politics do not disappear or follow election returns and that vigilance is still the price of freedom.

MEMBERSHIP OF THE COMMISSION

Mr. HOWARD. The Advisory Commission on Intergovernmental Relations is a permanent bipartisan Federal commission, now in its 25th year, having been founded in 1959. Its membership includes representatives from all levels of government, the National Government, State governments and local governments. At the national level six Members of Congress sit on the Commission, three of your colleagues in the Senate, Senators Durenberger, Roth, and Sasser, and three members of the House, Representatives Weiss, Walker, and Frank. These six Members of Congress join 20 others for a total of 26 Commission members.

As you might suspect from the makeup of the congressional delegation, the statutes require the Commission to be bipartisan; it must always have representatives of both major political parties, no matter which party controls the Presidency or the Houses of Congress.

As to our budget, Mr. Chairman, there are really only two policy points that ought to be made.

ACIR is the flagship institution of the National Government in the field of federalism. That fact shapes our budget in an important way. We look at what is happening to the American Federal system, how it works. We do research and present alternative recommendations to the Commission on how to improve the way our federalism operates.

We are coming upon the bicentennial of the forming of the American constitution. One of the things that is uniquely American, and I use the word "uniquely" correctly here—it means only one of a kind—is that this country first came up with the idea of governing through a Federal system. Even the Bill of Rights is not uniquely American. We think of that as part of the bicentennial, we ought to pay attention to federalism and its role as part of that constitution.

We want to do what we can at ACIR to help reappraise how federalism has operated, to examine what it has done well and what it has done poorly, and to enhance citizen understanding and appreciation for a Federal system and how it works.

As part of our next four budgets, from 1985 to 1989, we are trying to reallocate our own resources to encourage some recognition of federalism as part of the bicentennial period.

One of the directions in which American Federalism is moving is to shift things more and more to the State and local levels, a sort of devolution. As we look to the future at ACIR, we think the agenda of intergovernmental concerns is going to be more and more oriented toward State and local issues, as contrasted with the Federal-State issues and grants that have been the dominant themes for the last 10 years.

So we expect to spend a good deal more time on State and local issues in the reasonably foreseeable future on issues like some of the tax questions you talked about earlier today with Secretary Regan.

That State-local focus leads to the second reallocation of our internal resources: having staff members spend more time out of Washington working on State-local issues, having more capacity to go out and be in State and local settings, and having both Commission meetings and some of our other work done outside the District of Columbia.

The budget reflects these two major thrusts. I would be glad to answer any questions you might have.

Senator ABDNOR. How many staff do you have?

Mr. HOWARD. Thirty-four permanent, full-time positions.

Senator ABDNOR. Do you question Governors and legislators, or what?

Mr. HOWARD. Do you mean the other members of the Commission?

Senator ABDNOR. No; I mean to make your decisions of where to go and what to do.

Mr. HOWARD. The Commission members themselves generally indicate what issues they want us to look at. Let's say they particularly get interested in a topic such as what the courts are doing to the ability of the State and local governments to govern in substantative areas such as home-rule, taxing, running jails, and so on.

We may be directed, and have been directed in a couple of the areas mentioned to do some work and to analyze what is happening in that field. We would expect to go out and meet with State and local officials on the basis that they are interested in the subject, or it is a topic that is particularly germane to something that is happening in their jurisdiction.

But we are not directed by any particular Governors, or mayors. We deal with them on a target-of-opportunity basis as the situation suggests it would be useful for us to work with them, or as they think it would be useful.

Senator ABDNOR. It is nice to know these things, but how old is the Commission?

Mr. HOWARD. Twenty-five. This is our 25th year, and we are planning to have a celebration of that 25th anniversary next September.

Senator ABDNOR. Is that right. Good. You mentioned several Members of the House and the Senate on the Commission. In effect, I want to say that Senator Sasser and Senator Durenberger have contacted us stressing their support for the ACIR, and we want to at this point submit their letters for the record.

Mr. HOWARD. I appreciate that, Mr. Chairman. Thank you.

[The information follows:]

LETTER FROM SENATOR JAMES R. SASSER

MARCH 13, 1984.

HON. JAMES ABDNOR,
Chairman, Treasury, Postal Service, and General Government, Senate Appropriations Subcommittee, SD-188 Dirksen Senate Office Building, Washington, D.C.

DEAR JIM: As a member of the Advisory Commission on Intergovernmental Relations (ACIR), I support ACIR's fiscal year 1985 budget request which is currently before your committee. I believe the Commission's budget request is reasonable.

The Commission is recognized nationally for its thorough and objective research. It has done much to improve the relations among all levels of government in this country over its 25 year life.

I would appreciate your careful consideration and support of the Commission's budget request.

Sincerely yours,

JAMES R. SASSER.

LETTER FROM SENATOR DAVE DURENBERGER

MARCH 14, 1984.

HON. JAMES ABDNOR,
Chairman, Treasury, Postal Service, and General Government, Senate Appropriations Subcommittee, SD-188 Dirksen Senate Office Building, Washington, D.C.

DEAR JIM: As a member of the Advisory Commission on Intergovernmental Relations (ACIR), I support ACIR's fiscal year 1985 budget request which is currently before your committee. I believe the Commission's budget request is reasonable considering the additional studies and responsibilities Congress assigned the Commission in looking at cigarette bootlegging and general revenue sharing formulas.

Over its 25 years of existence, the Commission has earned the confidence of Congress as these recent assignments suggest.

I would appreciate your careful consideration and support of the Commission's budget request.

Sincerely yours,

DAVE DURENBERGER,
Chairman,
Subcommittee on Intergovernmental Relations.

LIST OF COMMISSION MEMBERS

Senator **ABDNOR**. There are currently 26 members of the Commission, right?

Mr. **HOWARD**. As we sit here, there are 24, Mr. Chairman. The law provides for 26. There are two vacancies because the legal status of two members changed. There are 24 members, but 26 positions today.

Senator **ABDNOR**. Would you submit a list of members for the record?

Mr. **HOWARD**. Of course.

Senator **ABDNOR**. Thank you.

[The information follows:]

LIST OF MEMBERS

	Appointment date	Expiration date
Private citizens:		
James S. Dwight, Jr., Washington, D.C. (Republican)	Mar. 7, 1983.	Mar. 6, 1985.
Robert B. Hawkins, Jr., Chairman, Sacramento, Calif. (Republican)	Sept. 22, 1983.	Sept. 21, 1985.
Kathleen Teague, Washington, D.C. (Republican)	Sept. 22, 1983.	Sept. 21, 1985.
Members of the U.S. Senate:		
David Durenberger, Minnesota (Republican)	Mar. 26, 1981.	Mar. 25, 1983.
William V. Roth, Delaware (Republican)	Mar. 26, 1981.	Mar. 25, 1983.
James R. Sasser, Tennessee (Democrat)	Mar. 23, 1981.	Mar. 22, 1983.
Members of the U.S. House of Representatives:		
Barney Frank, Massachusetts (Democrat)	Mar. 3, 1983.	Mar. 2, 1985.
Robert S. Walker, Pennsylvania (Republican)	Mar. 3, 1983.	Mar. 2, 1985.
Theodore S. Weiss, New York (Democrat)	Mar. 3, 1983.	Mar. 2, 1985.
Officers of the executive branch, Federal Government:		
Samuel R. Pierce, Jr., Secretary of the Department of Housing and Urban Development (Republican)	Apr. 8, 1981.	Apr. 7, 1983.
Lee L. Verstandig, Assistant to the President for Intergovernmental Affairs (Republican)	Sept. 22, 1983.	Sept. 21, 1985.
Vacancy.		
Governors:		
Lamar Alexander, Vice Chairman, Tennessee (Republican)	June 11, 1981.	June 10, 1983.
Bruce E. Babbitt, Arizona (Democrat)	June 10, 1983.	June 9, 1985.
Scott M. Matheson, Utah (Democrat)	June 10, 1983.	June 9, 1985.
Richard L. Thornburgh, Pennsylvania (Republican)	June 10, 1983.	June 9, 1985.
Mayors:		
Ferd Harrison, Scotland Neck, N.C. (Democrat)	June 10, 1983.	June 9, 1985.
James Inhofe, Tulsa, Okla. (Republican)	Sept. 15, 1981.	Sept. 14, 1983.
Joseph P. Riley, Jr., Charleston, S.C. (Democrat)	Sept. 15, 1981.	Sept. 14, 1983.
Vacancy.		
State legislators:		
Ross O. Doyen, president, Kansas State Senate (Republican)	Sept. 15, 1981.	Sept. 14, 1983.
David E. Nething, majority leader, North Dakota State Senate (Republican)	July 21, 1982.	July 20, 1984.
William F. Passannante, speaker pro tem, New York State Assembly (Democrat)	June 10, 1983.	June 9, 1985.

LIST OF MEMBERS—Continued

	Appointment date	Expiration date
Elected county officials:		
Gilbert Barrett, chairman of the board, Dougherty County, Ga. (Democrat)	Nov. 24, 1982.	Nov. 23, 1984.
William J. Murphy, county executive, Rensselaer County, N.Y. (Republican)	Nov. 24, 1982.	Nov. 23, 1984.
Sandra R. Smoley, president, National Association fo Counties, Sacramento, Calif. (Republican)	Sept. 22, 1983.	Sept. 21, 1985.

CIGARETTE BOOTLEGGING STUDY

Senator ABDNOR. Last year, the committee directed the Commission to look into the study of cigarette bootlegging. Where does that study stand now?

Mr. HOWARD. We had a meeting about 10 days ago of what we call a "thinkers' session" on the cigarette bootlegging study.

Senator ABDNOR. Yes.

Mr. HOWARD. We brought together about 18 to 20 people for that session, including people from the Alcohol, Tobacco and Firearms unit of the Treasury, some State tax commissioners, and representatives from the tobacco industry, including wholesalers, the Tobacco Institute, and manufacturers. We laid out our outline of that study. They commented on it and have asked us to circulate a revised outline of that study.

I would say, Mr. Chairman, that we are moving forward at a very responsible pace.

Senator ABDNOR. A year or so ago we passed TEFRA. That included more cigarette tax. Can you see more bootlegging going on because of the higher taxes?

Mr. HOWARD. That interesting issue was debated at the thinkers' session from a number of perspectives. The manufacturers felt one way and the wholesalers another. The general impression that I took away, not knowing much about this issue except what I learned at the meeting, was that there is a widespread feeling that the Alcohol, Tobacco and Firearms unit is doing a very good job trying to control bootlegging, but that it has increased to the point that the wholesalers, particularly those up and down the Northeastern corridor, are feeling very squeezed in their ability to earn a profit due to illegal activities. The problem is increasing as you alluded to earlier in the Treasury testimony because organized crime is so sophisticated.

What is happening in this field is not simple bootlegging anymore, but counterfeiting. They are actually counterfeiting the stamps because it is worth it now given the higher tax rates. It isn't easy to track bootlegging either. But it looks like stamp counterfeiting is the bigger piece of the action than the old bootlegging and interstate commerce parts.

Senator ABDNOR. That will be interesting. You will be coming forth with that?

Mr. HOWARD. Our timetable calls for this study to go before the Commission in December 1984. Whatever proposals grow out of that

Commission action will be available to the Congress when it convenes in January 1985.

Senator ABDNOR. Thank you. I was just noticing that you say here you have been directed to work with the Administrative Conference of the United States on a study permitting practices, especially as they affect energy and port development projects. How are you doing on that? I am interested in that. I am chairman of water resources on public works, dealing with deep-water ports and all that.

Mr. HOWARD. All right. The original impetus for that study grew out of a request from your House counterpart, Representative Roybal and his office. They initiated our concern with this topic.

The permitting process concerns what you do if you want to undertake a project at a port: What permits do you have to get, who issues them, what do you have to go through? There may be some State ones, some local ones, some dealings with the Corps of Engineers, and a lot more depending on the nature of the project.

A permitting morass confronts the person who wants to develop one of these projects. I am sure you are more familiar with that than I. The issue that was raised was one of the law and the process which surrounds permitting. Competency on these matters can be found in the Administrative Conference of the United States, which is very legal based, rather than at ACIR which tends to emphasize public administration, political science, economics, and taxation.

For that reason the Administrative Conference has taken the lead in this study. In fact, they had the leading expert on consulting contract with them earlier on a piece of this study, so in consultation with us, we all agreed that they would extend that person to do this additional work. That researcher issued his preliminary draft about 2 weeks ago. It is about a 150-page document and it has been reviewed, or is in the process of being reviewed, by us now. That review is the first crack we have had at the study, but we are in touch with them, and it is moving forward.

I think they plan to take it up at the June meeting of the Conference.

Senator ABDNOR. When it is finished, I would like to see it.

Mr. HOWARD. It is in draft, so there is a physical document floating around now, Mr. Chairman, being reviewed by the technical people.

Senator ABDNOR. The Commission's SLUC charge has been significantly reduced for fiscal year 1985. Have you cut back, or what?

Mr. HOWARD. It's magic. No; we are one of the few agencies that doesn't come in and rail at SLUC. In terms of what we still have in the budget, we may not feel that the charges are all they should be, but we have actually reduced our space. As a part of internal revampings I initiated, we reduced our space and now that is showing up in the SLUC reduction.

Senator ABDNOR. Congratulations.

Mr. HOWARD. Thank you.

Senator ABDNOR. Contributions from State and local government organizations that are using the clearinghouse program, could you tell us a little about that, how it works?

Mr. **Howard**. Congress directs us to seek money from State and local governments to support our activities. I think it is a reasonably good indicator of whether or not those governments believe what we are doing is useful. Obviously we are supposed to be of some use to the State and local levels.

Essentially, we simply ask; it is a voluntary contribution. We have an organized way of asking the States, and we only ask States at this point, not localities. Last year we collected a little bit over $80,000 that way.

Senator **Abdnor**. Fine.

ADDITIONAL COMMITTEE QUESTIONS

We are going to have some other questions submitted to you in writing.

Mr. **Howard**. That would be fine, Mr. Chairman. We would be glad to respond.

[The following questions were not asked at the hearing but were submitted to the Commission for response subsequent to the hearing:]

Additional Committee Questions

Question. Senator Durenberger has introduced the Intergovernmnental Regulatory Relief Act. It would shift the cost of federally mandated rules and regulations from the State to the Federal Government. Do you support the concept of the bill? If yes, do you have any problems or foresee any difficulties in the bill as presently drafted? If no, why do you oppose this bill?

Answer. ACIR supports the purposes of Senator Durenberger's Intergovernmental Regulatory Relief Act, which has been introduced as S. 2401. Indeed, the bill is based on an ACIR finding that Federal regulation of State and local governments has become too intrusive and too burdensome on these subnational governments.

We view this bill as an important step in implementing certain recommendations the Commission recently adopted in a major report entitled "Regulatory Federalism." The bill implements ACIR's recommendations in two ways. First, it calls for an annual report to the Congress by the President that would: (a) evaluate the costs and benefits of existing and proposed intergovernmental regulations and (b) set forth a program of administrative and legislative actions to reduce regulatory burdens on State and local governments and to increase the ratio of benefits over costs resulting from such regulations. Second, it would provide (over a period of years) full Federal reimbursement of the costs incurred by State and local governments in complying with such regulations. Cost shifting by the regulating government onto other levels in our system has long concerned the Commission. In this instance, the Commission recommended full reimbursement for all future Federal regulations; it did not specifically speak to phasing in reimbursement for all Federal regulations, but such a proposal is clearly in keeping with past Commission discussions about this general topic.

The findings and purposes set forth in S. 2401 are in complete accord with the ACIR report as adopted December 2-3, 1982. The call for an annual report by the President, although not found explicitly in ACIR's recommendations, nevertheless is quite consistent with the purposes behind the Commission's recommendations in this report.

The Commission staff foresees the Commission having no serious difficulties with this bill as presently drafted because it hews so closely to adopted ACIR positions.

Question. In some areas of Federal regulations, many States have stricter regulations. Does this bill shift all the costs of administering the tougher regulations to the Federal Government or does the State have to absorb all the costs of the regulations which in effect would discourage States from imposing tougher standards?

Answer. S. 2401, stipulates that Federal reimbursement for its regulatory mandates be in amounts equivalent only to the costs incurred in meeting whatever Federal requirements and standards are or might be set forth. Any State- or locally-established standards or requirements that go beyond the Federal mandate would lie outside Federal reimbursement responsibility. Based on our review, I believe title II of S. 2401, as presently drafted, incorporates this principle within its provisions for estimating federally reimbursable costs. Such costs are termed "additional direct costs" in the bill and are defined in section 3, in such a way that they include only those amounts "incurred by State and local governments solely in complying with an intergovernmental regulation promulgated pursuant to a Federal law * * * which is in excess of the amount that such State or local government would be required to expend * * * in the absence of such law."

Question. Because the Federal Government will be forced to pay the cost of implementation and administration of the rules and regulations, do you see the possibility that the Federal Government could put more strings on the States than already exist, thus defeating the purpose of the legislation?

Answer. Any answer is more conjecture than fact. Certainly State and local governments might be less resistant to proposed laws because they would not be harmed financially by the additional regulation entailed. But lessened resistance does not mean nonresistance or concurrence. I do not believe regulation from outside is going to be viewed with a lot of enthusiasm, no matter what the fiscal arrangements. This bill forces Congress to confront the fiscal implications of the regulations it continues to authorize or newly enacts. This, we think, would be a powerful new countervailing influence, especially at this moment in our national fiscal history.

The costs of any intergovernmental regulation bill under consideration would be set forth clearly during congressional deliberations in accordance with the fiscal note provisions in the Congressional Budget Act. That requirement, strongly supported by ACIR, would explicitly place before the individual Members of Congress the financial consequences of their actions prior to any vote to increase Federal regulatory burdens on State and local governments.

To me, the possibility you raise is a remote one. ACIR firmly believes enacting this bill would reduce the number of new instances of applying Federal regulation to State and local governments. Over a period of years, it should also help reduce the numbers and burdens of already enacted intergovernmental regulations.

OFFICIAL RESIDENCE OF THE VICE PRESIDENT

PREPARED STATEMENT

Senator **ABDNOR**. One final item. The statement of Captain Loftus of the U.S. Navy, on the Official Residence of the Vice President has been submitted for the record, and will appear in full.

[The statement follows:]

STATEMENT OF CAPT. STEPHEN F. LOFTUS, ASSISTANT DIRECTOR OF BUDGET AND REPORTS, U.S. NAVY, OFFICIAL RESIDENCE OF THE VICE PRESIDENT

I welcome the opportunity to appear before this committee to present the Department of the Navy's fiscal year 1985 budget request for the appropriation, Official Residence of the Vice President.

The fiscal year 1985 request is for $219,000. This is $43,000 less than the $262,000 reflected in the budget for fiscal year 1984. (The fiscal year 1984 amounts shown are based upon a continuing resolution (Public Law 98-151)). This decrease is due primarily to a decrease in the value of major projects (replaster/repair interior walls/upgrade associated wiring IAW electrical code), offset by additional funds to cover inflation associated with utilities and other services, plus a small program increase for rehabilitation and improvements. These projects include repair/replacement of the boiler and steam system, replacement of the metal garage roof, replacement of the basement title floor and installation of a sewer manhole. In addition funds will provide for a comprehensive engineering study.

The funding requirements by function are furnished in table 1:

TABLE 1.—FUNCTIONAL AREAS

	Fiscal year—		
	1983 actual	1984 estimate	1985 estimate
Utilities	$27,600	$29,000	$30,400
Other services:			
Maintenance of residence	26,900	28,200	29,600
Rehabilitation and alterations	8,900	11,000	11,500
Supplies	6,300	6,600	6,900
Furnishings	6,200	6,500	6,800
Vehicle lease	2,300	2,400	2,500
General administration	5,800	6,000	6,300
Services	4,500	4,700	4,900
Equipment maintenance	2,500	2,600	2,800
Official entertainment	60,000	60,000	60,000
Upgrade kitchen	39,000		
Exterior preparation and painting	226,000		
Replaster/repair interior walls/upgrade associated wiring		105,000	
Repair/replace boiler and steam system			12,000
Replace metal garage roof			12,000
Replace basement floor tile			8,500
Install sewer manhole			4,000
Conduct comprehensive engineering study			20,000
Total	416,000	262,000	218,200

BIOGRAPHY OF CAPT. STEPHEN F. LOFTUS

Capt. Stephen F. Loftus, USN, a native of Arlington, Mass., entered the U.S. Navy in 1956 after receiving an bachelor of science degree from the University of Massachusetts. He also holds a masters degree in financial management from the U.S. Naval Postgraduate School in Monterey, Calif.

Following commissioning and subsequent naval flight officer training, he was assigned to the first of five squadron tours covering the warfare specialties of carrier-based early warning, heavy attack, and maritime patrol. Significant shore assignments include two tours in the Naval Air System Command as Executive Assistant and Aide to the Commander, and Deputy Project Manager for Fleet Interface in the S3–A Viking Office. Various tours in the Office of the Chief of Naval Personnel and Chief of Naval Operations prefaced his assignment as Executive Assistant to the Assistant Secretary of the Navy for Financial Management.

Captain Loftus served as both Commanding Officer, U.S. Naval Air Station, Bermuda, and Commander Task Group 24.3 before returning to Washington to take his current post as Assistant Director of Budget and reports, Office of the Comptroller of the Navy and Assistant Director, Fiscal Management Division, Office of the Chief of Naval Operations.

Captain Loftus was selected for flag rank in January 1984.

He has been awarded the Legion of Merit (with gold star in lieu of second award), Distinguished Flying Cross, meritorious service medal, Air Medal (3 STRIKE/flight awards), Navy commendation medal (with combat V and two gold stars in lieu of second and third awards), Navy achievement medal, meritorious unit commendation (w/bronze star), national defense medal, Armed Forces expeditionary medal, Vietnam service medal (with four bronze stars), sea service ribbon, Vietnam cross of gallantry with palm and Vietnam campaign medal.

Captain Loftus is married to the former Martha Jane Smith of Cambridge, Mass. They have two daughters, Susan and Nancy. Their daughter Nancy is married to Lt. Brian Wild currently serving in Patrol Squadron Eight in Brunswick, Maine. Their youngest daughter Susan is a student at the College of Notre Dame in Baltimore, Md.

SUBCOMMITTEE RECESS

Senator **Abdnor**. With that, we will conclude our hearings today. The subcommittee will reconvene on March 19 at 2 p.m., to receive testimony from the Department of Treasury with regard to the Office of the Secretary, Bureau of Government Financial Operations, the Bureau of Public Debt, Bureau of the Mint, and the U.S. Savings Bond Division.

We will also hear from Dr. Don Devine, Director of the Office of Personnel Management.

So, without further ado here, there will be no further business to come before the subcommittee, we stand in recess until 2 p.m. next Monday.

[Whereupon, at 3:40 p.m., Thursday, March 15, the subcommittee was recessed, to reconvene at 2 p.m., Monday, March 19.]

TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 1985

MONDAY, MARCH 19, 1984

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 2:05 p.m., in room SD–124, Dirksen Senate Office Building, Hon. James Abdnor (chairman), presiding.

Present: Senator Abdnor.

DEPARTMENT OF THE TREASURY

OFFICE OF THE SECRETARY

STATEMENT OF DAVID E. PICKFORD, ACTING ASSISTANT SECRETARY, ADMINISTRATION

ACCOMPANIED BY:

- CAROLE J. DINEEN, FISCAL ASSISTANT SECRETARY
- LARRY E. ROLUFS, DEPUTY TO THE TREASURER
- WILLIAM E. DOUGLAS, COMMISSIONER, BUREAU OF GOVERNMENT FINANCIAL OPERATIONS
- W. M. GREGG, COMMISSIONER, BUREAU OF THE PUBLIC DEBT
- STEVEN R. MEAD, EXECUTIVE DIRECTOR, U.S. SAVINGS BOND DIVISION
- DONNA POPE, DIRECTOR, U.S. MINT
- ARTHUR D. KALLEN, DIRECTOR, OFFICE OF BUDGET AND FINANCE

INTRODUCTION OF ASSOCIATES

Senator ABDNOR. The subcommittee will come to order.

The subcommittee continues its fiscal 1985 budget review today with testimony from the Department of the Treasury and the Office of Personnel Management.

Testimony for the Department of the Treasury is going to concentrate on the Office of the Secretary, the Bureau of Government Financial Operations, the Bureau of the Public Debt, U.S. Savings Bonds Division, and the U.S. Mint. We are looking forward to our group of witnesses today, and we are also going to have with us the Director of the Mint; and Dr. Devine, the Director of the Office of Personnel Management. We have quite an agenda, and we will just move right along with our statements, and I guess you folks know that your entire statements will be made a part of the record. You can summarize in any way you care.

We welcome you, Mr. Pickford and Mrs. Dineen, and all of you here today. You may proceed in any way you care to.

Mr. PICKFORD. Thank you, Mr. Chairman.

Mr. Chairman, I am pleased to be here today to present the fiscal year 1985 budget request for the Office of the Secretary. Also accompanying me today are Carole J. Dineen, Fiscal Assistant Secretary; and Larry Rolufs, Deputy to the Treasurer of the United States. They will provide the committee with the details of the request for the bureaus under their supervision.

PREPARED STATEMENTS

You are all very aware of the responsibilities in the Office of the Secretary, and how pivotal they are to the management of the Department.

I would like to summarize a few of the main points of the budget request for you this afternoon. In addition, I will submit a formal statement for the record.

Senator ABDNOR. We will insert all your prepared statements in the record at this point.

[The statements follow:]

STATEMENT OF DONNA POPE

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE, I AM PLEASED TO PRESENT FOR YOUR CONSIDERATION THE FISCAL YEAR 1985 APPROPRIATION REQUEST FOR OPERATIONS OF THE UNITED STATES MINT. BEFORE OUTLINING TO YOU OUR REQUEST, I WANT TO TELL YOU THAT WE HAVE CHANGED OUR NAME. AT MY REQUEST, THE SECRETARY APPROVED (TREASURY DEPARTMENT ORDER NO. 155-2, DATED JANUARY 9, 1984) THE TITLE UNITED STATES MINT IN LIEU OF THE BUREAU OF THE MINT. I FELT THE TERM "BUREAU" WAS A CONFUSING ONE TO THE PUBLIC. OUR NUMISMATIC PRODUCTS HAVE BEEN IDENTIFIED AS "UNITED STATES MINT" PRODUCTS FOR SEVERAL YEARS. ALSO, THE TERM BUREAU DOES NOT CLEARLY IDENTIFY US IN COMPARISON TO OTHER MINTS, FOR EXAMPLE, THE ROYAL CANADIAN MINT OR THE SWISS FEDERAL MINT, AFTER ALL, THERE IS ONLY ONE UNITED STATES MINT.

FY1985 BUDGET REQUEST

OUR REQUEST IS FOR $47.758 MILLION AND 1,078 AVERAGE POSITIONS FOR SALARIES AND EXPENSES. I WOULD LIKE TO EMPHASIZE THAT OUR BUDGET REQUEST REFLECTS A DECREASE OF $1,242,000 AND 57 AVERAGE POSITIONS FROM THE AUTHORIZED TOTAL OF $49.000 MILLION UNDER THE CURRENT FISCAL YEAR 1984 CONTINUING RESOLUTION.

THIS BUDGET REQUEST WILL ALLOW THE MINT TO PRODUCE 19.1 BILLION COINS. COMBINED WITH A 1 BILLION COIN INVENTORY DRAWDOWN, THIS PRODUCTION WILL SATISFY THE FEDERAL RESERVE BANKS' PROJECTED REQUIREMENTS OF 20.1 BILLION COINS AND STILL MAINTAIN INVENTORIES AT LEVELS NECESSARY TO INSURE ADEQUATE COIN SUPPLY FOR THE NATION'S ECONOMY.

THIS NET DECREASE IS COMPOSED OF THE FOLLOWING MAJOR CHANGES:

- DECREASES OF $5.919 MILLION AND 57 AVERAGE POSITIONS RESULT PRIMARILY FROM CHANGES IN COIN PRODUCTION COUPLED WITH

REDUCTIONS IN OVERTIME AND NON-RECURRING COST FOR REPAIRS TO FORT KNOX, RENOVATION OF PHILADELPHIA STRIP SPACE, EQUIPMENT AND OMB MANAGEMENT INITIATIVES.

- AN INCREASE OF $2.099 MILLION FOR PAY RAISES ALREADY GRANTED IN FISCAL YEAR 1984,

- AN INCREASE OF $2.578 MILLION TO OFFSET INFLATION FOR UTILITIES, PRODUCTION RELATED SUPPLIES, TELECOMMUNICATIONS COSTS, RENTAL COSTS, PAYMENTS TO SOCIAL SECURITY TRUST FUND AND EMPLOYEE BENEFITS,

REVENUES RESULTING FROM FISCAL YEAR 1985 OPERATIONS OF THE UNITED STATES MINT ARE ESTIMATED TO BE APPROXIMATELY $592 MILLION CONSISTING OF SEIGNIORAGE OF $580 MILLION AND $12 MILLION FROM THE SALE OF NUMISMATIC ITEMS.

FISCAL YEARS 1983-1984 HIGHLIGHTS

I WOULD LIKE TO POINT OUT SOME SIGNIFICANT CHANGES I HAVE MADE IN THE MINT'S STRUCTURE. THEY ARE IMPORTANT BECAUSE OF THE IMPACT THE CHANGES HAVE MADE IN THE OVERALL OPERATION.

WE HAVE DISCONTINUED THE PHILADELPHIA STRIP OPERATION, CONSOLIDATED THE FUNCTIONS OF THE OLD MINT AND THE SAN FRANCISCO ASSAY OFFICE UNDER ONE OFFICER IN CHARGE; WE HAVE CLOSED THE SAN FRANCISCO DATA CENTER AND REORGANIZED HEADQUARTERS. THE UNITED STATES MINT LOOKS DIFFERENT - MORE STREAMLINED, FROM TWO YEARS AGO. I WILL BRIEFLY EXPLAIN EACH OF THESE CHANGES.

PHILADELPHIA STRIP OPERATIONS

WE HAVE DISCONTINUED THE PHILADELPHIA MELTING AND STRIP OPERATIONS AND HAVE GONE TOTALLY TO THE PRIVATE SECTOR FOR COINAGE STRIP SUPPLIES. FOR CUPRO-NICKEL STRIP, OLIN CORPORATION AND ARCO METALS ARE OUR SUPPLIERS. FOR CLAD STRIP THERE HAS BEEN ONLY ONE SUPPLIER, OLIN CORPORATION. HOWEVER, OTHER SOURCES HAVE BEEN IDENTIFIED, AND WE HOPE TO

HAVE ALTERNATE SOURCES VERY SOON. WE HAVE STARTED THE PROCESS OF DISPOSING THE STRIP RELATED EQUIPMENT AND SPARE PARTS AND THE RESTORATION OF SPACE. WE HAVE RETAINED THE CLAD MILL, THE FINISHING MILL, AUXILIARY EQUIPMENT AND ASSOCIATED SPARES PARTS FOR FUTURE BACKUP USE AND PROTECTION AGAINST UNWARRANTED PRICE INCREASES. WE WILL NOT CONSIDER DISPOSING OF THE CLAD MILL AND USE THE AVAILABLE SPACE OCCUPIED BY THIS EQUIPMENT FOR OTHER PURPOSES, AT LEAST UNTIL WE FEEL CONFIDENT THAT OTHER SOURCES BEING DEVELOPED FOR CLAD STRIP WILL BE SUCCESSFUL IN MEETING THE REQUIREMENTS OF THE MINT.

OLD MINT AND SAN FRANCISCO ASSAY OFFICE

I HAVE ALSO CONSOLIDATED THE FUNCTIONS OF THE OLD MINT AND THE SAN FRANCISCO ASSAY OFFICE AND PLACED THEM UNDER ONE OFFICER IN CHARGE.

DATA CENTER

WE HAVE CLOSED OUR DATA CENTER AT THE OLD MINT, AND TEMPORARILY TRANSFERRED OUR COMPUTER OPERATIONS TO THE OFFICE OF THE SECRETARY'S ITEL COMPUTER HERE IN WASHINGTON.

HEADQUARTERS

I HAVE ALSO RECENTLY REORGANIZED MINT HEADQUARTERS. WHEN I ACCEPTED THE PRESIDENT'S APPOINTMENT, I FOUND THAT THE ORGANIZATION AND MANAGEMENT OF THE MINT WAS NOT STRONG. IN FACT, THE GRACE COMMISSION IN THEIR REVIEW OF THE MINT COMMENTED ON THIS FACT; (HOWEVER, THAT WAS BEFORE MY REORGANIZATION). I BROUGHT IN TOP MANAGEMENT FROM OUTSIDE OF THE MINT IN ORDER TO BRING FRESH VIEWPOINTS TO OUR OPERATIONS. MY DEPUTY DIRECTOR WAS PREVIOUSLY THE DEPUTY INSPECTOR GENERAL IN TREASURY; AND MY DIRECTOR FOR OPERATIONS (PRODUCTION AND TECHNOLOGY), WAS IN CHARGE OF RESEARCH AND DEVELOPMENT AND PRODUCTION AT THE FRANKLIN MINT. THE MINT MANAGEMENT IS STRONGER NOW THAN IT HAS BEEN FOR MANY YEARS.

COIN REQUIREMENTS

THE CONVERSION OF THE ONE CENT COIN TO A COPPER PLATED ZINC ALLOY HAS BEEN A SUCCESSFUL COST REDUCTION INITIATIVE. METAL COSTS HAVE BEEN REDUCED AND CENT DEMAND HAS NORMALIZED. IN ADDITION, CENT PRODUCTION HAS STABILIZED RESULTING IN FURTHER EFFICIENCIES.

CONSEQUENTLY, A PRODUCTION OF 19.1 BILLION COINS FOR FY1985 WILL BE SUFFICIENT TO MEET THE FEDERAL RESERVE BANKS' REQUIREMENTS OF 20.1 BILLION COINS AND MAINTAIN INVENTORIES AT LEVELS NECESSARY TO INSURE AN ADEQUATE COIN SUPPLY FOR THE NATIONS ECONOMY. THE DIFFERENCE OF 1 BILLION COINS WILL BE SHIPPED FROM INVENTORY.

COIN PRODUCTION

THE MINT HAS FIVE (5) FIELD OFFICES OF WHICH FOUR (4) ARE ENGAGED IN THE COIN MANUFACTURING PROCESS. THEY ARE: THE PHILADELPHIA AND DENVER MINTS, THE SAN FRANCISCO ASSAY OFFICE AND THE WEST POINT BULLION DEPOSITORY.

IN FISCAL YEAR 1982, WE PRODUCED A RECORD 19.5 BILLION COINS OF WHICH 16.5 BILLION WERE PENNIES. WITH RECORD PRODUCTION OF PENNIES CONTINUING INTO FISCAL YEAR 1983, WE WERE FINALLY ABLE TO BREAK THE PENNY SHORTAGE.

DURING FISCAL YEAR 1983, WE CONDUCTED AN EXPERIMENT USING PART-TIME AND TEMPORARY EMPLOYEES ON WEEKENDS AND TO FILL OUR REGULAR SHIFTS TO WORK OUR EQUIPMENT SEVEN DAYS A WEEK. WE PRODUCED AN ADDITIONAL 1.1 BILLION COINS DURING THIS EXPERIMENT.

IT WAS TERMINATED EARLY, IN PART BECAUSE OF ITS TREMENDOUS SUCCESS. AT THE SAME TIME THE EXPERIMENT OF PRODUCING MORE COINS WAS IN PROCESS, COIN DEMAND SLACKENED, CAUSING US TO OVERRUN OUR STORAGE CAPACITY, WHICH WAS A SERIOUS PROBLEM IN SEVERAL ASPECTS, NOT THE LEAST OF WHICH WAS A TENDENCY BY EMPLOYEES TO LOSE ENTHUSIASM FOR WORKING

HARDER AND DOING MORE -- BECAUSE THEY SAW SUCH GREAT BUILD UP OF INVENTORIES. BASED ON THE SUCCESS OF THE EXPERIMENT, WE INTEND TO BEGIN REDUCING THE PERCENTAGE OF FULL-TIME EMPLOYEES AND INCREASING THE PERCENTAGE OF TEMPORARY EMPLOYEES USED TO PRODUCE OUR COINS. THEREFORE, THIS BUDGET REQUEST REFLECTS OUR INTENTION TO PRODUCE 16 BILLION COINS WITH PERMANENT FULL-TIME EMPLOYEES AND THE ADDITIONAL 3.1 BILLION COINS TO BE PRODUCED USING PART-TIME AND TEMPORARY EMPLOYEES. WE SHOULD SAVE - CONSERVATIVELY AT LEAST $650,000 IN 1985 WITH THIS APPROACH. I AM ANXIOUS TO START THE MINT IN A DIRECTION WHICH WILL ALLOW FLEXIBILITY TO RESPOND TO ANY SWINGS IN DEMAND WITHOUT PLACING LARGE NUMBERS OF PERMANENT EMPLOYEES ON THE ROLES.

COINAGE STRIP SOURCES

WE HAVE BEEN TRYING FOR SEVERAL YEARS TO EXPAND OUR SOURCES OF SUPPLY OF COINAGE STRIP. WE RECENTLY HAVE BEEN ABLE TO ENCOURAGE ADDITIONAL COMPETITION FOR OUR SUPPLY OF CUPRO-NICKEL STRIP. ARCO METALS WAS AWARDED A CONTRACT FOR CUPRO-NICKEL SUPPLIES TO THE U. S. MINT AT DENVER. OLIN CONTINUES TO BE OUR SUPPLIER AT PHILADELPHIA.

WE HOPE THAT THIS SUCCESSFUL ENTRANCE OF ANOTHER SOURCE OF SUPPLY WILL EXTEND TO OUR CUPRO-NICKEL CLAD STRIP. INDICATIONS OF ADDITIONAL SUPPLIERS' INTEREST HAVE BEEN EVIDENCED BY PARTICIPATION OF THREE COMPANIES (GTE, TEXAS INSTRUMENTS AND VDN) IN A DEVELOPMENTAL PROGRAM WE HAVE INITIATED.

DEPOSIT ACTIVITY

THE DEPOSIT ACTIVITY INCLUDES THE COST OF PREPARING, STORING, AND LOADING COINS FOR SHIPMENT FROM THE MINT; AND THE SHIPPING, STORING AND VERIFYING OF GOLD AND SILVER BULLION. THE MAJOR ELEMENT OF COST IN THIS ACTIVITY INVOLVES

THE HANDLING, STORAGE AND SUBSEQUENT RELEASE OF NEW COINS TO THE FEDERAL RESERVE BANKS.

PROTECTION

THE SECURITY STAFF PROTECTS ALL MINT EMPLOYEES, FACILITIES, AND ASSETS INCLUDING GOLD AND SILVER BULLION, AND COINS IN THE CUSTODY OF THE MINT. MINT POLICE ALSO PROTECT COINS AND BULLION IN TRANSIT WHEN NECESSARY.

ON AUGUST 27, 1983, WE SHIPPED 8,229 BARS CONSISTING OF 3,329,422.234 FINE TROY OUNCES OF GOLD FROM THE UNITED STATES ASSAY OFFICE IN SAN FRANCISCO TO THE UNITED STATES MINT IN DENVER.

THE BARS WERE LOADED ON TRUCKS, WHICH WERE THEN DRIVEN TO THE SAN FRANCISCO INTERNATIONAL AIRPORT AND PLACED ON MILITARY AIRCRAFT AND FLOWN TO DENVER. UPON ARRIVAL AT BUCKLEY AIR BASE IN DENVER, THE TRUCKS WERE REMOVED FROM THE PLANES AND DRIVEN TO THE DENVER MINT. THROUGHOUT THE ENTIRE MOVEMENT THE BARS WERE UNDER CONTINUOUS SECURITY AND ACCOUNTABILITY MEASURES.

EXPANSION AND IMPROVEMENTS

AS A RESULT OF PLANNED EXPANSION OF MINT FACILITIES, IT WAS DETERMINED THAT THE DENVER MINT WOULD BEGIN SPECIFIC EXPANSION AND IMPROVEMENT PLANS FOR THAT FACILITY ON OR ABOUT APRIL 1981. SINCE THAT DATE, THROUGH THE GENERAL SERVICES ADMINISTRATION, THE ARCHITECT ENGINEER FIRM OF ROGER-NAGEL-LANGHARD (RNL) WAS SELECTED.

SUBSEQUENT TO THE SELECTION OF THE A&E CONTRACTOR, SOME DIFFICULTY WAS EXPERIENCED WITH THE SMALL BUSINESS ADMINISTRATION (SBA) CONCERNING WHETHER OR NOT THE CONSTRUCTION CONTRACT SHOULD BE SET ASIDE FOR A MINORITY SMALL BUSINESS. AFTER THE SBA DETERMINED THAT THE PROJECT NEED NOT BE A MINORITY BUSINESS SET ASIDE, BIDS WERE SOLICITED AND OPENED ON NOVEMBER 30, 1983. THE LOW BIDDER

WAS TRAUTMAN-SHREVE, INC. HOWEVER, FOUR PROTESTS WERE FILED AND ON FEBRUARY 1, 1984 WE LEARNED THAT THE LOW BIDDER WAS NOT APPROVED BY THE SMALL BUSINESS ADMINISTRATION.

THE SMALL BUSINESS ADMINISTRATION CERTIFIED THE SECOND LOWEST BIDDER. HOWEVER, THE GSA RECENTLY COMPLETED ITS AUDIT AND SUBMITTED A NEGATIVE RECOMMENDATION BECAUSE THE COMPANY HAS NOT BEEN IN BUSINESS FOR FIVE YEARS AND HAS A PRECARIOUS FINANCIAL STRUCTURE. IF THE SBA ACCEPTS THIS RECOMMENDATION, IT IS VERY LIKELY THAT THE CONTRACT AWARD WILL NOT OCCUR BEFORE MAY 1, 1984. GSA IS PROCEEDING TO EVALUATE THE THIRD LOWEST BIDDER. WE ARE MOST EAGER TO BEGIN THE CONSTRUCTION OF THE DENVER MINT EXPANSION, BUT THERE SEEMS TO BE A SNAG WITH EVERY STEP THAT IS TAKEN.

AT THE SAME TIME, WITH THE CLOSING OF THE PHILADELPHIA STRIP OPERATIONS WE EXPECT TO RENOVATE THAT SPACE AND ARE CONSIDERING VARIOUS USES FOR THE SPACE - INCLUDING, OF COURSE, THE INSTALLATION OF ADDITIONAL PRESSES TO MEET EXPECTED DEMAND EVEN FURTHER IN THE FUTURE. THE MOST RECENT ESTIMATE IS THAT AT LEAST 60 ADDITIONAL PRESSES INSTALLED IN PHILADELPHIA OVER A PERIOD OF YEARS COULD YIELD AN ADDITIONAL 10 BILLION COINS, ELIMINATING THE NEED FOR ANY NEW MINT FACILITY TO BE BUILT.

PERSONNEL

OUR EMPLOYMENT LEVEL FOR FISCAL YEAR 1985 WILL BE 1,866 (FTE) WORK YEARS (1,078 FROM APPROPRIATED FUNDS AND 788 FROM NUMISMATIC AND OTHER REIMBURSABLE ACTIVITIES). THIS IS 57 FEWER APPROPRIATED WORK YEARS AND 170 FEWER REIMBURSABLE WORK YEARS THAN WAS AUTHORIZED IN FISCAL YEAR 1984. THIS REDUCTION RESULTS FROM INCREASED PRODUCTIVITY AND GREATER EFFICIENCIES IN COIN PRODUCTION AND THE COMPLETION OF THE OLYMPIC AND GEORGE WASHINGTON PROGRAMS.

CONTINUING AUDITS OF GOLD

A PROGRAM FOR CONTINUING AUDITS OF UNITED STATES OWNED-GOLD BEGAN IN 1974 WITH THE PURPOSE OF PROVIDING A COMPLETE AUDIT OF UNITED STATES OWNED-GOLD. THE AUDIT OF MINT HELD GOLD WAS VIRTUALLY COMPLETED DURING FISCAL YEAR 1983.

AS OF SEPTEMBER 30, 1983, OVER 94 PERCENT OF UNITED STATES OWNED-GOLD BULLION AT MINT DEPOSITORIES HAS BEEN AUDITED AND ALL 94 PERCENT FOUND TO AGREE WITH THE RECORDS. THIS REPRESENTED 235 MILLION OF THE 250 MILLION FINE TROY OUNCES OF GOLD BULLION HELD BY MINT FACILITIES AS OF SEPTEMBER 30, 1983.

ALSO, AS OF SEPTEMBER 30, 1983, THE TOTAL AMOUNT OF UNITED STATES OWNED-GOLD WAS 263.5 MILLION FINE TROY OUNCES OF WHICH 13.5 MILLION WAS HELD BY THE FEDERAL RESERVE BANK OF NEW YORK.

DUE TO THE CONTINUED NEED FOR AN INDEPENDENT AUDIT OF UNITED STATES OWNED-GOLD, A NEW GOLD AUDIT PROGRAM WAS INITIATED IN FISCAL YEAR 1983. THE COMMITTEE GOVERNING THE GOLD AUDIT PROGRAM IS REPRESENTED BY THE OFFICE OF THE INSPECTOR GENERAL AND THE FEDERAL RESERVE BANK OF NEW YORK. ANNUALLY THE COMMITTEE WILL PREPARE A REPORT ON THE STATUS OF THE AUDIT OF UNITED STATES OWNED-GOLD, TO THE INSPECTOR GENERAL, DEPARTMENT OF THE TREASURY, WHO WILL REPORT THE FINDINGS TO THE SECRETARY OF THE TREASURY. AUDITS WERE CONDUCTED UNDER THIS NEW PROGRAM AT THE FORT KNOX BULLION DEPOSITORY AND AT THE DENVER MINT.

EQUAL EMPLOYMENT OPPORTUNITY

THROUGH OUR SPECIAL EMPHASIS PROGRAMS, THE MINT HAS CONTINUED TO IMPROVE ITS POSTURE IN EEO/AFFIRMATIVE ACTION GOALS. WE HAVE MADE MODEST INCREASES IN HANDICAPPED, STAY-IN-SCHOOL, AND VETERAN EMPLOYMENT. OUR MINT-WIDE STATISTICS SHOW A WORKFORCE MADE UP OF 41% MINORITY-GROUP

MEN, 13% MINORITY-GROUP WOMEN, 6% NON-MINORITY-GROUP WOMEN AND 40% NON-MINORITY-GROUP MEN.

ADP

THE UNITED STATES MINT'S FUTURE SUCCESS DEPENDS, IN PART, UPON THE EFFECTIVE AND EFFICIENT USE OF ITS INFORMATION SYSTEMS RESOURCES TO SUPPORT THE PLANNING, OPERATION, AND CONTROL OF MINT ACTIVITIES. IN ORDER TO ENSURE THAT THIS OCCURS, WE CONTRACTED WITH ARTHUR YOUNG AND COMPANY TO STUDY OUR SITUATION AND TO PREPARE A GENERALIZED PLAN. TO FOLLOW UP ON THIS, WE SUBSEQUENTLY CONTRACTED WITH A SECOND CONSULTING FIRM, CAP GEMINI, AND DIRECTED THEM TO: (1) REVIEW ARTHUR YOUNG'S FINDINGS, (2) CONDUCT A DETAILED ADP REQUIREMENTS STUDY, AND (3) PREPARE A COMPREHENSIVE FIVE YEAR ADP PLAN. THIS PLAN HAS BEEN COMPLETED AND INCORPORATES A NEW APPROACH TO MEETING THE INFORMATION NEEDS OF THE MINT. IN GENERAL, THE PLAN CALLS FOR THE USE OF A DISTRIBUTED INFORMATION SYSTEMS CONFIGURATION USING MINICOMPUTERS AT EACH FACILITY. THIS IS THE MOST COST-EFFECTIVE MEANS OF SATISFYING THE MINT'S LONG TERM (1985-1989) ADP NEEDS. THIS WILL REPLACE THE CURRENT CENTRALIZED-SYSTEM, A SYSTEM WHICH IS APPROXIMATELY TEN YEARS OLD AND OUTDATED. TO IMPROVE OUR DATA PROCESSING CAPABILITIES WE PLAN TO RELEASE A SOLICITATION DOCUMENT THIS SPRING AND HOPE TO COMMENCE IMPLEMENTING AN APPROPRIATE SYSTEM BY YEAR'S END.

NUMISMATIC AND REIMBURSABLE PROGRAMS

OUR NUMISMATIC AND MEDAL PROGRAMS FOR FY1985 WILL PRIMARILY CONSIST OF: ANNUAL PROOF COIN SETS; ANNUAL UNCIRCULATED COIN SETS; AND CONGRESSIONALLY AUTHORIZED MEDALS.

ALL PRODUCTION OPERATIONS AND SALES ACTIVITIES RELATED TO THESE PROGRAMS ARE FINANCED FROM REIMBURSABLE FUNDS. IN FY1985 IT IS ESTIMATED THAT $12 MILLION WILL BE MADE

AVAILABLE TO THE GENERAL FUND FROM THE PROCEEDS OF THESE PROGRAMS.

COIN PRODUCTION FOR FOREIGN GOVERNMENTS HAS BEEN GREATLY REDUCED IN RECENT YEARS DUE TO THE GROWTH IN THE WORKLOAD FOR DOMESTIC COIN PRODUCTION.

OLYMPIC COMMEMORATIVE COINS

PUBLIC LAW 97-220 DATED JULY 22, 1982, PROVIDED FOR THE STRIKING OF UP TO 50 MILLION ONE DOLLAR SILVER COINS DATED 1983 AND 1984 AND UP TO 2 MILLION TEN DOLLAR GOLD COINS DATED 1984 TO ASSIST THE OLYMPIC EFFORT AND THE 1984 OLYMPIC GAMES IN LOS ANGELES. THE GOLD COIN IS THE FIRST TO BE STRUCK BY THE U. S. MINT IN FIFTY YEARS.

THE MINT IS PRODUCING OLYMPIC COINS AT ITS FACILITIES IN SAN FRANCISCO, DENVER, PHILADELPHIA, AND WEST POINT. COIN PRICES INCLUDE SURCHARGES, AS PROVIDED FOR IN THE LEGISLATION, OF $10 PER SILVER COIN AND $50 PER GOLD COIN. THESE SURCHARGES ARE BEING DISTRIBUTED EVENLY TO BOTH THE U. S. OLYMPIC COMMITTEE AND THE LOS ANGELES OLYMPIC ORGANIZING COMMITTEE EACH MONTH. AS OF MARCH 2, 1984, SURCHARGES OF $33.7 MILLION HAVE BEEN PAID TO THE OLYMPIC COMMITTEES.

A CONTRACT WAS AWARDED TO D'ARCY MACMANUS MASIUS, A PRIVATE ADVERTISING AGENCY, TO DEVELOP AND IMPLEMENT A COMPREHENSIVE MARKETING STRATEGY FOR THE DOMESTIC SALE OF THE COINS AND TO MAISON LAZARD, AN INTERNATIONAL BULK DISTRIBUTOR, FOR FOREIGN SALES.

ADDITIONAL MARKETING METHODS ARE BEING DEVELOPED FOR COIN CONSIGNMENT TO FINANCIAL INSTITUTIONS, DEPARTMENT STORES, TELEMARKETING, AND TELEVISION ADVERTISING.

GEORGE WASHINGTON COMMEMORATIVE HALF DOLLARS

THE GEORGE WASHINGTON COMMEMORATIVE COIN ACT OF 1981 AUTHORIZED THE TREASURY TO ISSUE UP TO 10 MILLION 90% SILVER

COMMEMORATIVE HALF DOLLARS DURING 1982 AND 1983 TO HONOR THE 250TH ANNIVERSARY OF GEORGE WASHINGTON'S BIRTH.

DURING THOSE TWO YEARS THE COINS WERE PRODUCED IN BOTH PROOF AND UNCIRCULATED CONDITIONS. SALES EFFORTS WERE CONDUCTED BY THE MINT'S INTERNAL MARKETING OFFICE AND INCLUDED MAILINGS TO THE ENTIRE U. S. BANKING COMMUNITY AND SELECT RETAILERS, ADVERTISING IN WEEKLY AND MONTHLY MAGAZINES IN THE U. S., AND SELLING AT NUMISMATIC AND BANKING CONVENTIONS AND AT THE MINT SALES AREAS. BULK DISCOUNT SALES WERE INITIATED FOR INSTITUTIONS AND INDIVIDUALS WHO WISHED TO PURCHASE THE COINS IN LOTS OF 100.

TOTAL SALES AS OF FEBRUARY 1, 1984, TOTALLED 6.5 MILLION.

GOLD MEDALLIONS

WE BELIEVE THE CURRENT DISTRIBUTION SYSTEM FOR THE U. S. GOLD PROGRAM USING A CONTRACTOR WITH A NETWORK OF OVER 3,200 DEALERS IS AN IMPROVEMENT OVER THE PREVIOUS DISTRIBUTION METHOD OF GOLD MEDALLIONS. SINCE SALES BEGAN TO J. ARON, SALES TO THEM HAVE TOTALED 694,000 OUNCES COMPARED TO THE 565,000 OUNCES SOLD BY THE MINT IN THE TWO YEARS THAT THE MINT WAS SELLING DIRECTLY TO THE PUBLIC. HOWEVER, AT THIS TIME THE GOLD MARKET SEEMS TO BE A STAGNANT ONE, AND THE SALE OF GOLD PIECES IN THIS COUNTRY INCLUDING KRUGERRANDS IS VERY LOW. WHILE WE BELIEVE THAT OUR POTENTIAL FOR SALES HAS IMPROVED, ACTUAL SALES ARE STILL DISAPPOINTING. J. ARON ATTRIBUTES POORER THAN EXPECTED SALES TO SEVERAL FACTORS. THE PRIMARY FACTOR IS THE LACK OF COIN STATUS. THE PRINCIPLE COMPETITORS TO THE GOLD MEDALLION ARE FOREIGN GOLD COINS. ALSO CITED IS A PUBLIC ATTITUDE OF CAUTION TOWARD GOLD SALES IN GENERAL. PARTICULARLY WITH THE RECENT DROP IN THE MARKET PRICE OF GOLD, OTHER INVESTMENTS SEEM TO BE MORE DESIRABLE AT THIS TIME.

ANNUAL PROOF COIN SETS

THE FIVE COIN PROOF SET WHICH IS PRODUCED EACH YEAR CONTAINS THE CENT THROUGH THE HALF DOLLAR AND IS PRODUCED AT THE SAN FRANCISCO ASSAY OFFICE ONLY. ALL COINS BEAR THE "S" MINT MARK AND ARE OF THE HIGHEST QUALITY, WITH SPECIAL ATTENTION GIVEN TO ALL ASPECTS OF COIN PRODUCTION AND HANDLING. THE PAST PRACTICE HAS BEEN TO SELL COINS TO CUSTOMERS ONLY BY MAIL. THE MINT IS NOW SELLING THESE COINS OVER THE COUNTER. HOPEFULLY IN THE NEAR FUTURE, THEY WILL BE SOLD BY FINANCIAL INSTITUTIONS.

ANNUAL UNCIRCULATED SETS

THE UNITED STATES MINT WILL RESUME PRODUCTION OF UNCIRCULATED COIN SETS, POPULARLY KNOWN AS "MINT SETS" LATE IN 1984. MINT SETS WERE ISSUED ANNUALLY FOR MANY YEARS. HOWEVER, THE PROGRAM WAS SUSPENDED IN 1982 IN A BELT-TIGHTENING EFFORT. RESUMPTION OF THE PROGRAM IS THE RESULT OF A RECENTLY ADOPTED AMENDMENT TO THE MINT'S CONTINUING BUDGET RESOLUTION.

EACH MINT SET WILL CONTAIN ONE OF EACH CIRCULATION-QUALITY COIN STRUCK BY PHILADELPHIA AND DENVER. THE COINS ARE IN MINT CONDITION AND EFFORTS ARE MADE TO SECURE UNBLEMISHED PIECES, BUT UNLIKE COINS IN A PROOF SET, THESE ARE NOT STRUCK ON SPECIAL BLANKS NOR MADE BY A SPECIAL PROCESS.

THIS CONCLUDES MY PREPARED REMARKS AND I WILL BE PLEASED TO ANSWER ANY QUESTIONS YOU MAY HAVE AT THIS TIME.

STATEMENT OF W. M. GREGG

INTRODUCTION

Mr. Chairman and Members of the Committee, I appreciate this opportunity to discuss with you our FY 1985 appropriation request for "Administering the Public Debt." This appropriation provides funds for the Bureau of the Public Debt and the U.S. Savings Bonds Division. The latter is a separate organization responsible for promoting the sale of savings bonds and its requirements will be discussed separately.

The Bureau of the Public Debt is a service organization with responsibility for the administrative functions required for the conduct of Treasury's debt financing activities and for accounting for the public debt. The Bureau maintains an office in Parkersburg, West Virginia, as well as the headquarters office in Washington, D.C.

FY 1985 APPROPRIATION REQUEST

We are requesting an appropriation of $198 million for the Bureau of the Public Debt and the U. S. Savings Bonds Division in FY 1985, an increase of $1.5 million over the amount available for FY 1984. Program increases amount to $3.2 million and other increases necessary to maintain current levels total $7.3 million. These increases are largely offset by reductions of $9.0 million for productivity savings, management improvements, and nonrecurring costs.

Our FY 1985 Budget includes significant savings and enhancements to Bureau programs as a result of efforts which have been planned for a number of years. Major initiatives reflected in this budget include a Treasury Direct Access Book-entry securities system, the use of Optical Character Recognition/Magnetic Ink Character Recognition (OCR/MICR) equipment for savings bond redemptions processing, and replacement of the Bureau's central computer. These initiatives will allow us to improve operational performance, increase program effectiveness, and strengthen management control and resource protection.

MARKETABLE PROGRAM

During our FY 1984 Congressional hearings, I advised the committee of the Bureau's plans for improving the marketable securities program. In FY 1985 the Bureau will implement a significant advance in the marketable securities program by offering new issues of notes and bonds in book-entry form only.

The major advantage of full book-entry is the elimination of paper securities, which will reduce printing, vault storage, shipping, and handling costs associated with definitive note and bond stock. We have already discontinued the issuance of bearer securities. To replace our current registered accounts system, we are developing a Treasury Direct-Access Book-entry system for investors dealing directly with Treasury. Later in 1985 we will begin to put our Treasury bill accounts on this system. The system will enable the Bureau to provide maximum reinvestment opportunities and prompt, direct service to account holders. The automated system is being developed and will be operated for us by the Federal Reserve Bank of Philadelphia. Funds were reallocated from the savings bonds program to the marketable securities program in FY 1984 to cover system development costs.

Our FY 1985 budget submission projects a savings of 68 work-years and $2.1 million from the elimination of definitive securities and the move to full book-entry. Overall, we are estimating a total reduction of 380 work-years to result from this change, and a cumulative net savings of $43 million in the seven years following implementation. Half of the savings, approximately $22 million, will be realized from the final phase of eliminating registered securities.

SAVINGS BOND PROGRAM

In November 1982, the Department introduced a new variable rate savings bond. The new bond, if held for at least five years, earns 85 percent of the average yield on outstanding five-year Treasury marketable securities. There is also a minimum guaranteed yield of 7.5 percent. As the Bureau had expected, there was a marked improvement in savings bond sales in FY 1983, after several successive years of declining volumes. For the first time since FY 1978, the cash received from sales of savings bonds exceeded the principal amount of savings bonds redeemed by nearly $563 million. The Bureau expects this positive public response to continue through FY 1985. Relating this positive response to Bureau workloads, we expect sales in FY 1985 to reach 81.3 million pieces, an increase of 4.8 percent over our FY 1984 projection. Redemptions are projected at 80.6 million pieces, a 1.9 percent increase over our FY 1984 projection.

The higher volume of savings bond issues and redemptions in FY 1985 will require an additional $1.4 million for fees to issuing and paying agents and an additional $442,000 in payments to the United States Postal Service for postal costs.

Also in the savings bond activity, the Bureau estimates productivity savings of 38 average positions and $525,000. A portion of the savings will be realized by using OCR/MICR equipment to process redeemed bonds. Funds to procure this equipment are in our FY 1984 budget. Lesser but still significant savings are expected from other smaller automation efforts, such as a system to track savings bond case files. These files contain data regarding individual investor inquiries about their securities. The Bureau is requesting $125,000 in FY 1985 necessary to procure this new system, which we estimate will save 4 average positions and $60,000 in the same year.

TECHNOLOGICAL IMPROVEMENTS

A significant request in this budget is $1,259,000 to replace the Bureau's mainframe computer. The funds requested in 1985 are for the first phase of a five-year project to replace the computer with smaller state-of-the-art computers. The current system, installed in early 1976, uses outdated memory and processor technologies which do not provide adequate flexibility to meet the Bureau's future needs. Further major expansion of this system would be impractical and costly as the current operating system will not be supported by the vendor after January 1986. This new computer equipment will enable the Bureau to improve its operational systems and will insure the protection of resources in our automated systems.

CONCLUSION

Mr. Chairman, this concludes my prepared remarks. We will be glad to answer any questions you and the members of your committee may have.

Statement of David E. Pickford

Mr. Chairman and members of the Committee, I am pleased to be here today to discuss the fiscal year 1985 budget request for the Office of the Secretary in the Department of the Treasury.

As you know, the 1,282 positions in the Office of the Secretary serve as the principal policy formulation and implementation arm of the Secretary in carrying out his responsibilities as the chief financial officer of the U.S. Government, a major economic policy advisor to the President and executive director of the Treasury Department.

The missions and functions of the Office of the Secretary are broad and diverse and include:

(1) Recommending and implementing U.S. domestic and international economic, monetary, and tax policies;

(2) Managing the fiscal operations of the U.S. Government and the public debt;

(3) Overseeing Treasury's major law enforcement responsibilities;

(4) Conducting numerous international economic and financial responsibilities, as well as serving as the United States' representative to various international financial organizations;

(5) Liaison with the Congress and the American public; and

(6) Administrative oversight of the department's numerous organizations and related statutes.

The Office of the Secretary's fiscal year 1985 budget request totals $84.2 million and 1,282 permanent positions which is a net increase of $17.1 million and a decrease of 43 authorized positions from fiscal year 1984. $24.2 million will support the broad economic policy direction activities within the Office of the Secretary. This includes development of tax initiatives, economic forecasts, and fiscal policy, including management of the public debt and management of the production of coins, currency and postage. An estimated $5.7 million will support the Inspector General function for the Department's non-law enforcement bureaus. Approximately $14.2 million will support international activities, including analytical work in areas such as international monetary affairs, development financing, and trade and investment policy. An estimated $22.5 million is for Departmental and office administrative functions such as budget, accounting, personnel, and procurement. This is among the smallest level of resources for such staff functions for a major Department. Approximately $17.7 million is requested to maintain, operate and improve the Main Treasury and Annex buildings. As you know, the Office of the Secretary is unique because we own and operate our own buildings - Main Treasury and the Annex. Unlike most Federal agencies, it is necessary for the Office of the Secretary to budget funds specifically for the general operations. These are not additional expenses for the Government, but, rather, funds that otherwise would have been reimbursed to the General Services Administration. The general support operations include telecommunications systems, maintenance and repairs, and utility services.

The increases requested for fiscal year 1985 include $2.5 million to maintain the current level of operations and $14.6 as program changes.

The largest single program increase in this request is $5.7 million for a Repairs and Improvements project to renovate the Treasury Annex building. The Annex, which was constructed in 1919, has had no major renovation during its 60 years of existence. A proposed move from the Annex by the Bureau of Government Financial Operations, in order to centralize its operations, will provide the Office of the Secretary with an ideal opportunity to undertake the necessary building renovations while the building is unoccupied.

The Office of the Secretary is also requesting an increase of $5.4 million for an enhanced telecommunications operations center. This project will involve major telecommunications center renovations in the Main Treasury Building to support development of enhanced equipment and services for a 24-hour telecommunications operations center and the conversion of the existing Centrex telephone system to a digital telephone system.

The Office of the Secretary request also seeks $3.4 million for improvements in our data processing capabilities. Since the Office of the Secretary has a continuing need for information and an increasing awareness of the need for greater productivity, an office automation plan has been undertaken which will review OS office systems. Through continued development of this office automation plan, we hope to be able to improve office workflow and operations and thereby increase productivity. Of the amount requested for ADP, $2.4 million will be used to replace or upgrade the OS Univac mainframe computer which supports the major portion of the Office of the Secretary's ADP activities, as well as those of other Treasury bureaus. Planned office automation efforts, using the Univac system as a base, will require a more powerful system in the future. Replacement or upgrading of the mainframe will enable the Office of the Secretary to keep pace with increased workload requirements, as well as increase responsiveness to the user community. Machine processing time will also be reduced; thereby freeing resources for additional economic and statistical modeling.

The remaining $1.0 million requested for ADP enhancements includes word processing equipment ($380,000), ADP contracts ($351,000), timesharing services ($158,000) and ADP equipment maintenance contracts ($100,000).

In addition to these program changes, a net increase of $2.5 million is requested to offset inflation and maintain current operating levels. The increases include:

-- $1.9 million for within-grade increases, annualization of the FY 1984 pay raise, health benefit increases, employee compensation fund and social security and medicare taxes;

-- $0.6 million to offset inflationary increases for GSA space rental costs, telecommunications services, GPO and commercial printing charges and building maintenance services;

-- $0.2 million for one additional workday in 1985.

These increases are offset by two decreases. A decrease of $139 thousand is requested due to the savings we expect to receive as we begin to implement procedures to reduce the number of positions in the GS 11 through 15 series. This initiative is part of a government-wide program to reduce the number of GS 11 through 15 positions over a five-year period. In addition, OS is also requesting a reduction of 43 full-time permanent authorized positions as a part of the Administration's effort to reduce Federal employment and to bring the OS authorized position level more in line with actual trends in staffing.

This request is designed to continue and enhance the trend of the previous requests: an emphasis upon improved technological capability, coupled with level or reduced staffing patterns. I realize that the increase requested overall appears substantial. I want to stress, however, that the components of this increase are necessary and defensible to enable Treasury to continue the improvements we are achieving.

This concludes my opening statement, Mr. Chairman. I will be pleased to answer any questions that the Committee may have.

STATEMENT OF LARRY E. ROLUFS

Mr. Chairman and members of the Committee, I appreciate this opportunity to present the 1985 appropriation request of the United States Savings Bonds Division.

I am pleased to report that 1983 was a very good year. In fact, the Savings Bonds Program achieved higher sales than in recent years and the amount outstanding reached more than $71 billion -- for the first time in three years. And, that amount outstanding saved the Treasury -- and taxpayers -- more than $2.5 billion, thereby cutting government spending.

The Savings Bonds Program continues to make an important contribution to our overall public debt management objectives. Savings Bonds have been a more cost-effective way of Federal government financing than the alternative of Treasury marketable securities. They have broadened the market for Treasury debt, and they have helped to achieve our goal of placing more of the debt in the hands of longer-term savers. The program provides an opportunity for millions of small savers to participate in the financing of their government and to develop habits of individual thrift which contribute to our broader economic objectives of increasing savings and reducing inflation.

Today, nearly six million people participate in payroll savings plans where they work. And in a recent survey, many of those employees said that if the easy, convenient payroll savings plan didn't exist, they wouldn't save at all.

Savings Bonds represent the best savings plan that anyone can choose and they continue to be America's favorite way to save.

IMPROVEMENTS IN THE BOND PROGRAM

Two events resulted in a substantial improvement in the Bond Program. First, the passage of legislation to link the interest rate on Savings Bonds to market rates, and second, an intensive publicity, advertising and sales campaign to inform consumers of the change in the interest rate system.

These events and an improvement in general economic conditions, position Savings Bonds as fully competitive with other savings instruments, and the Bond Program is being greeted with enthusiasm by both the media and the public.

SALES AND REDEMPTIONS

I am also pleased to say that the Savings Bonds Program continues to show encouraging sales growth. As of September 30, 1983, sales of Series EE and HH Bonds amounted to $4.0 billion, 29% above a year ago and 114 percent of the fiscal year goal. Redemptions of Savings Bonds during the same period fell to $6.0 billion, a reduction of 31 percent from the same period a year ago.

FY 1985 APPROPRIATION REQUEST

It is from this favorable base that we make our fiscal year 1985 request of $17.5 million and 276 average positions. This request is a net increase of $453,000 over the authorized level for fiscal 1984, and consists of $761,000 in increases to maintain current levels, offset by decreases of $308,000.

VOLUNTEER SUPPORT

The Savings Bonds Program is unique among all government bureaus in that part of its success is due to volunteer support. Active national and local volunteer committees perform vital and outstanding services to the Division in the fields of banking, media, labor and industry. This enormous volunteer support allows the Division to be extraordinarily cost effective. The efforts of our field personnel are multiplied through the directed activities of our volunteers.

PAYROLL SAVINGS

The payroll savings plan continues to be the most effective method of channeling regular systematic savings into Savings Bonds. Eighty percent of all Savings Bonds are from purchases made through payroll allotment. Continuing and increased emphasis will be given to encouraging government and industry to conduct Bond campaigns involving strong top management endorsement, canvasser training, person-to-person solicitation of employees and use of company-produced promotional materials.

ADVERTISING

The Division will continue to place special emphasis on achieving greater public awareness of the features and benefits of Savings Bonds. Advertising will increasingly stress the long-term value of Bonds, in addition to the immediate convenience of automatic savings. Also, over-the-counter sales through banks and other financial institutions will be strongly promoted.

The entire sales campaign will be supported through local publicity and a nationwide public service advertising campaign conducted by the Advertising Council, which in fiscal 1983 helped us get about $80 million in donated advertising space and time.

SUMMARY

During fiscal 1985, the Division will continue to concentrate its efforts on achieving the greatest possible sales growth and building its key markets, especially payroll savings. Efforts will be concentrated on those accounts which offer the greatest sales potential in order to make the most cost effective use of existing staff and volunteer resources.

First priority will continue to be those payroll savings companies with 5,000 or more employees whose support can be increased, often calling on a record of past strong campaigns.

Mr. Chairman and members of the Committee, this concludes my statement.

STATEMENT OF WILLIAM E. DOUGLAS

Mr. Chairman and members of the Committee, it is my pleasure to be here today to discuss the FY 1985 appropriation request of the Bureau of Government Financial Operations. We believe approval of this request will provide the resources required in FY 1985 to support our mission of promoting the financial integrity of the United States Government through sound money management on behalf of the public.

As the central agency most responsible for both the movement of Federal money and the movement of Federal financial information, we have undertaken a program of modernization that seeks ways to streamline our existing paper-intensive processes and to substitute electronic, automated processes wherever possible. The changes we are making to the systems for collections, payments, central accounting and cash management are being designed to take advantage of technological advances now affecting the nation's financial industry and the ways in which money and financial information are moved and managed nationwide.

In the past the Bureau has suffered from inefficient and outmoded systems. We are still dealing with the aftermath of these inadequacies, and are determined to never again let this organization's operating systems reach that state. Planning is an essential element in assuring that this does not reoccur.

As we move through this decade, the Bureau will continue to search for ways to make Federal financial information more timely, accurate, reliable, secure, and accessible and, therefore, more useful to the Government's financial management decision-makers. At the same time, we will improve the methods by which Federal funds are paid out and collected, looking for applications of electronic funds transfer systems that will allow us to take full advantage of the cash management benefits that are available. Congressional support of our investment in capital improvements for the present and the future is appreciated. Already, our studies of future requirements for payments and collections systems have led to the implementation of short-term improvements which have resulted in increased productivity and operational savings. For example, our success in increasing the volume of payments being made electronically, through such programs as Direct Deposit for recurring payments, including Social Security benefit payments, has resulted in savings in postage costs and in the cost of card stock for checks. Savings such as these encourage us to continue to make investments in systems improvements that move us toward the future I have described.

In addition to operational savings which directly affect our use of appropriated funds, Bureau activities involving the cash management of Federal funds have and will continue to generate Governmentwide savings far in excess of our total operating budgets for the entire decade.

For FY 1985, the Bureau is requesting $239,908,000 and 2,327 average positions, a decrease of $87,000 and 166 average positions from FY 1984. For the second consecutive year, our request for resources has decreased, with no anticipated decrease in our momentum for meaningful change. The Bureau's request is divided into four functional mission areas and the administrative functions to be discussed in the following order: (1) Banking and Cash Management; (2) Governmentwide Accounting; (3) General Financial Services; (4) Administration; (5) Disbursement and Claims.

BANKING AND CASH MANAGEMENT

The Banking and Cash Management Activity is requesting $55,186,000 and 155 average positions. Federal Reserve Bank Operations, the larger segment of the activity, requires $41,396,000 in FY 1985. Reimbursement is provided to commercial depositaries and the Federal Reserve Banks for performing numerous services which are vital to the Bureau's payment and collection systems. Roughly two-thirds of the funding for this program is paid to the commercial depositaries for the Treasury Tax and Loan Investment Program. Net interest earned by Treasury on deposits held in tax and loan accounts is estimated at $650 million in FY 1985.

$13,790,000 is requested for the Cash Management area which is responsible for the development, marketing, implementation and maintenance of efficient cash management systems for all Federal funds. The result of our continuing efforts to improve the

Governments's cash management is the generation of substantial Governmentwide interest savings.

Interest savings realized in FY 1983 alone are in excess of $500 million, more than enough to cover the Bureau's total operating costs in fiscal years 1984 and 1985. One project that is currently being inmplemented is the Treasury General Account Cash Concentration System designed to electronically process the transfer of funds and related accounting information between Federal agencies and the U. S. Treasury. By eliminating delays in the current paper-based system, nearly $20 million in interest savings will result each year.

In FY 1985, additional resources are requested to continue cash management modernization projects. The Timely Bill Payment Project will provide an improved system of Federal agency bill payment practices, monitor agency performance and provide forecast information. By establishing standardized bill paying practices in accordance with the Prompt Payment Act, savings are projected in excess of $200 million per year.

The Direct Deposit/Electronic Funds Transfer Program has contributed to an increase in the number of payments issued electronically while decreasing checks issued, claims activity, and related costs. Emphasis in FY 1985 will be on research, education and the establishment of a new simplified enrollment process designed to make it easier for those who wish to participate in the program to do so.

The Cash Management Information System will generate significant interest savings as a result of improved cash forecasting and control of cash balances. An integrated data base and financial information system scheduled for testing in FY 1985 will provide the ability to make more timely decisions concerning the management of Government fund balances.

Efforts continue to modernize the systems which are responsible for the payment and collection of Federal funds and related financial information. As part of the.Governmentwide Collections and Payment Mechanisms Studies, advisory panels of Government and private sector experts were assembled to assess the Government's current systems, analyze future requirements, examine all relevant technologies and develop a preliminary functional design for systems modernization.

The panels consisted of representatives from financial institutions, large corporations and Federal agencies including a communications expert from the Congressional Office of Technology Assessment. The objectives of these studies were to determine the design for modernized Governmentwide delivery systems and to develop implementation plans. In FY 1985, pilot testing and implementation of the collection system designs will take place.

Payment mechanisms improvements in FY 1985 will be directed toward the accounting and reporting of payments through the use of expanded automated systems. First of all, a pilot electronic certification system capable of certifying all payment requests will be implemented. Secondly, recommendations to improve control mechanisms for input and output of financial data will be implemented. Finally, an automated system to control daily payments and deposits will be developed. These initiatives in the Governmentwide Accounting activity are based on preliminary results of the Payment Mechanisms Study and will aid in the achievement of Bureau goals.

These programs are part of a unified approach to an overall efficient and centralized Governmentwide cash management system which will return substantial interest savings year after year and move the Government toward more modern day commercial practices.

GOVERNMENTWIDE ACCOUNTING

The Governmentwide Accounting Activity is requesting $32,836,000 and 700 average positions. The major responsibilities of this activity include maintenance of the central Government accounting and reporting systems, disclosure of the fiscal assets and liabilities of the U. S. Treasury, integration of Treasury cash and funding operations with those of all Federal agencies, and the publication of periodic financial reports. Improvement in the accuracy and timeliness of the Government's central accounts is a major component in the Bureau's effort to update its operating systems.

The Check Payment and Reconciliation System is being redesigned to improve the productivity and effectiveness of our central accounting and check claims functions while supporting the Bureau's goal of assuring competent delivery systems for both payments and collections. The redesign of this 30 year old system will be completed by the summer of 1985.

The Governmentwide Accounting Project is designed to study and evaluate the technical approaches currently available which will allow maximum improvements in the current system of financial reporting. In FY 1985, the conceptual design for accounting and reporting of collections will be developed; the central ledger will be redesigned; and Governmentwide reporting standards will be further clarified.

GENERAL FINANCIAL SERVICES

The Bureau's smallest activity, General Financial Services, is requesting $1,206,000 and 38 average positions. These resources will provide many varied and essential Government services such as the payment of foreign and domestic claims and financial management services for the four Social Security Trust Funds, the Unemployment Trust Fund, Airport and Airway Trust Fund, Presidential Election Campaign Fund, D.C. Government Loan accounts, and numerous smaller accounts. Other services include billing and collecting for lend-lease transfers, surplus property sales, co-production agreements, and administration of the Government Losses in Shipment Act.

The services performed by this activity continue to expand, yet are provided with ever increasing operational efficiencies. As a result, no funding increases are requested for this activity in FY 1985. We are currently assessing the vulnerability of our financial procedures and internal control mechanisms in this area in response to the Federal Managers' Financial Integrity Act of 1982.

ADMINISTRATION

The administrative cost of operating the Bureau is allocated among the four activities on a percentage basis reflecting actual use. In FY 1985, additional resources are requested for the Bureau's Retraining Program and the move to a new consolidated facility.

The Retraining Program is designed to match employee skills to emerging organizational needs. Automation will improve the quality of work for many, but may eliminate some positions requiring minimal skills. This program will identify and retrain employees with the potential to meet the demands of current or newly created positions, and will improve outplacement efforts for employees seeking work elsewhere.

The Bureau is scheduled to move to a consolidated facility in the Washington D.C. area during FY 1985. A central location in lieu of seven existing facilities will increase productivity, improve operations and maximize the use of human resources. In FY 1985 moving costs will be incurred for the physical relocation of personnel, furniture and equipment. The new facility will require modifications to meet special Bureau requirements such as support of data processing and telecommunications equipment. Flexible modular furniture will be required which will enable us to meet GSA specifications for average square feet of office space per person.

DISBURSEMENT AND CLAIMS

Disbursement and Claims is the Bureau's largest activity, representing over 60% of this appropriation request for both dollars and positions. It's FY 1985 resource requirements are $150,680,000 which includes $82,054,000 for postage, and 1,434 average positions.

The per unit cost of payments issued continues to decline, due primarily to postage savings from presort operations and the increased use of Direct Deposit in response to the Bureau's marketing program. This budget reflects a reduction in postage of $5.4 million from FY 1984, along with other cost and productivity savings which equal nearly $7 million. These savings allow us to request funding for the high priority Paper Check Project, while still showing a net decrease for this activity.

The Paper Check Project is a major modernization effort brought on by equipment obsolescence. Contemporary equipment will be purchased to replace the 20 year old punched card systems currently in use but which will no longer be supported by the manufacturer after FY 1986. The conversion to paper check represents a major step forward in Government disbursing operations. Paper is now the preferred medium in the financial community. Its use will allow for improved security and microfilm capabilities, a reduction in the cost of stock and a smaller requirement for storage capacity.

A public awareness campaign will be conducted to facilitate recognition and acceptance of the paper check. This will avoid potential negative consequences of the conversion, such as claims or questions concerning the authenticity of the new check. Funds for this campaign are requested in the Governmentwide Accounting activity.

The Check Claims portion of the Disbursement and Claims activity continues to show increased productivity and operating efficiency as resources requested decline. Interest billing and administrative set-off procedures are two system improvements which have led to an increase in collections against outstanding account receivables.

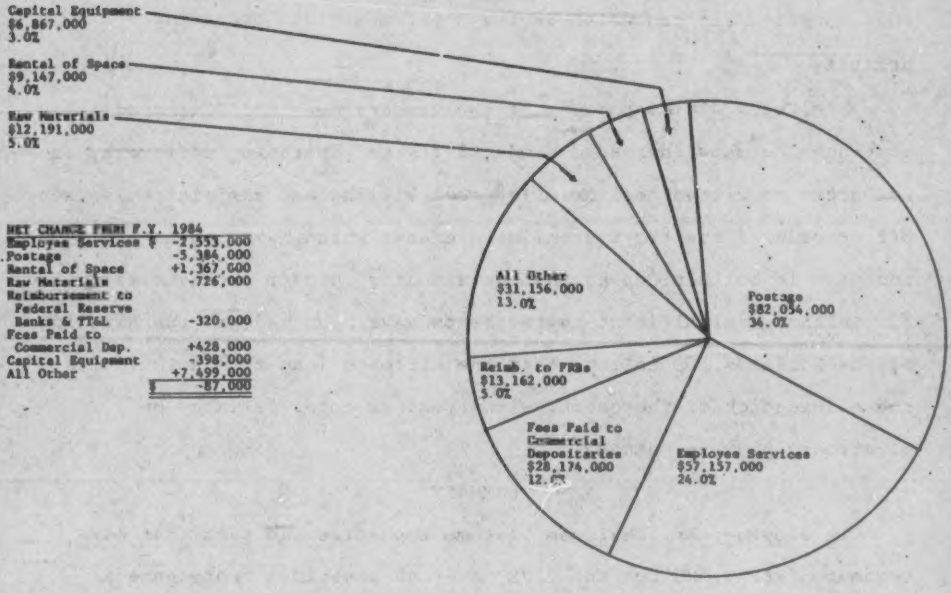
Although significant improvements have been made in the handling of check claims, we believe that the ultimate long term solution is the elimination of the check, with eventual total reliance on electronic payment methods.

SUMMARY

In closing, Mr. Chairman, let me emphasize the fact that our request of $239,908,000 and 2,327 average positions represents a decrease of over $4 million and 207 authorized average positions from FY 1983. We have proven without a doubt that we are able to budget our resources to deliver many vital services while increasing productivity and planning to meet future needs. The savings which we are generating, both within the Bureau and Governmentwide, are evidence that our projects will return much more than the dollars initially invested.

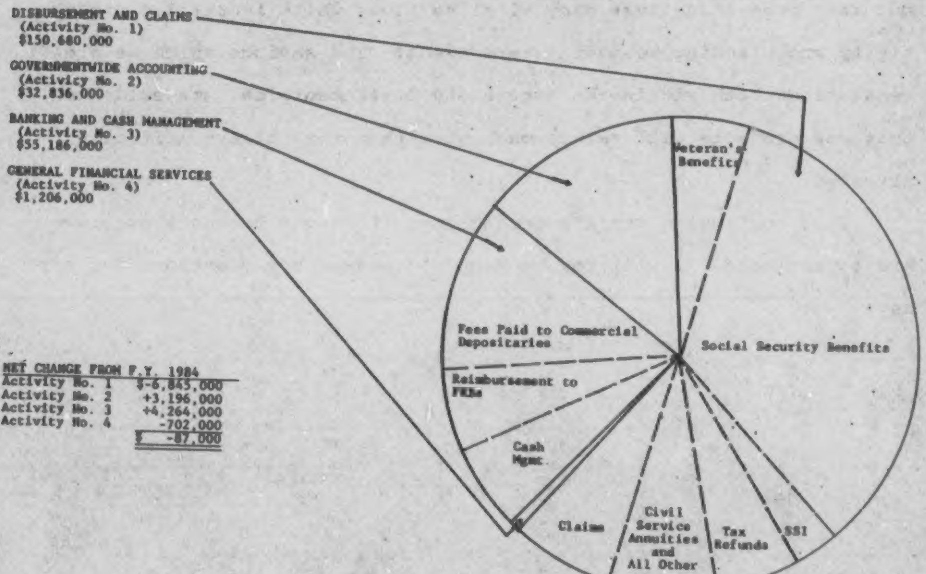
Your continuing confidence and support of our Bureau's programs are appreciated. I will now be happy to answer any questions you may have.

RESOURCES



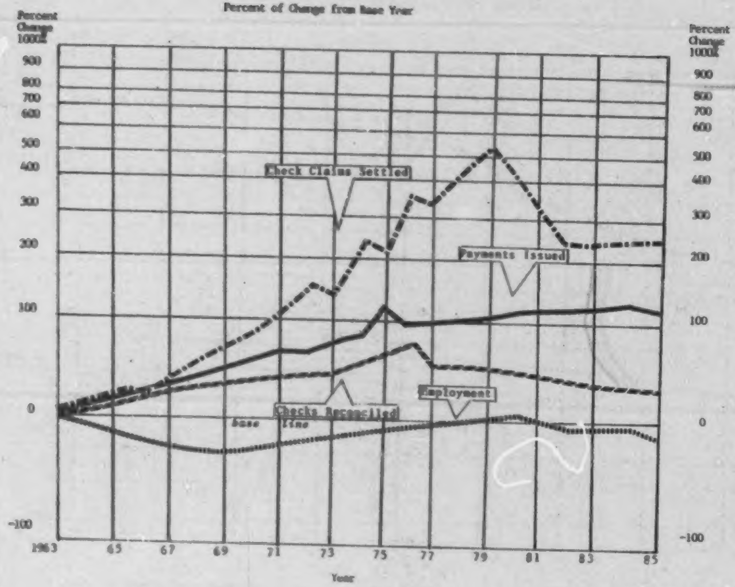
NET CHANGE FROM F.Y. 1984	
Employee Services	$ -2,553,000
....Postage	-5,384,000
Rental of Space	+1,367,000
Raw Materials	-726,000
Reimbursement to Federal Reserve Banks & TT&L	-320,000
Fees Paid to Commercial Dep.	+428,000
Capital Equipment	-398,000
All Other	+7,499,000
	$ -87,000

PRODUCTS AND SERVICES

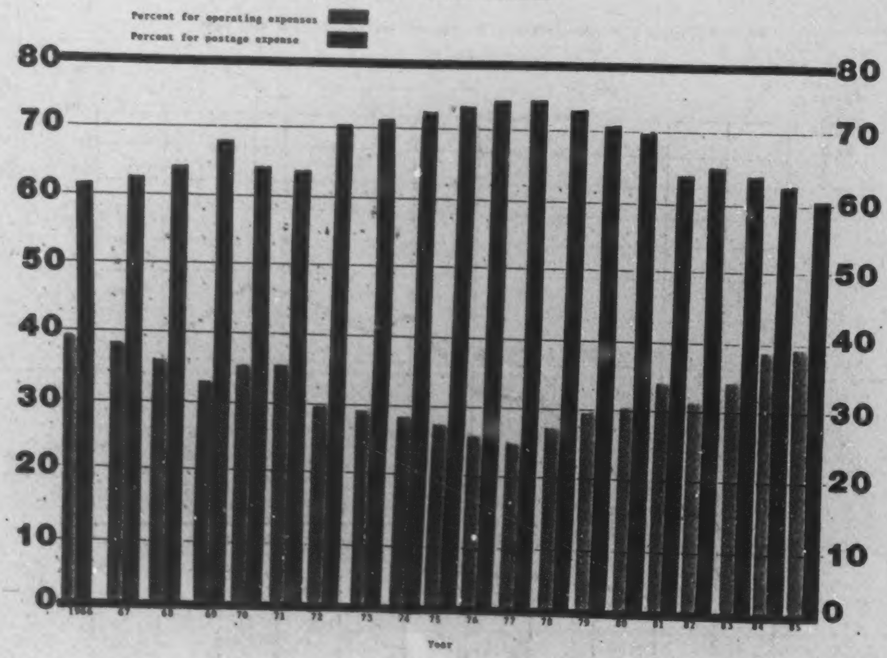


NET CHANGE FROM F.Y. 1984	
Activity No. 1	$-6,845,000
Activity No. 2	+3,196,000
Activity No. 3	+4,264,000
Activity No. 4	-702,000
	$ -87,000

Major Work Outputs
Percent of Change from Base Year

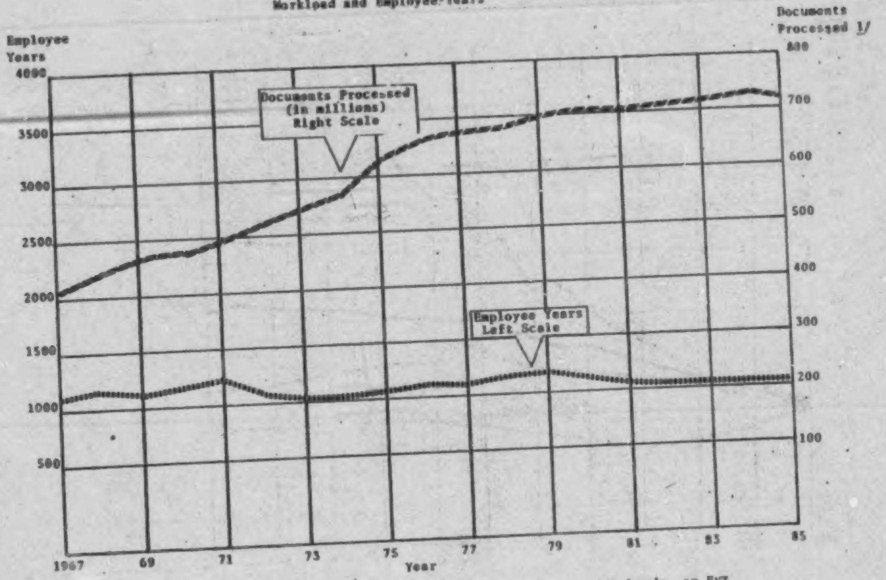


PAYMENT OPERATIONS
RESOURCE APPLICATION



PAYMENT OPERATIONS

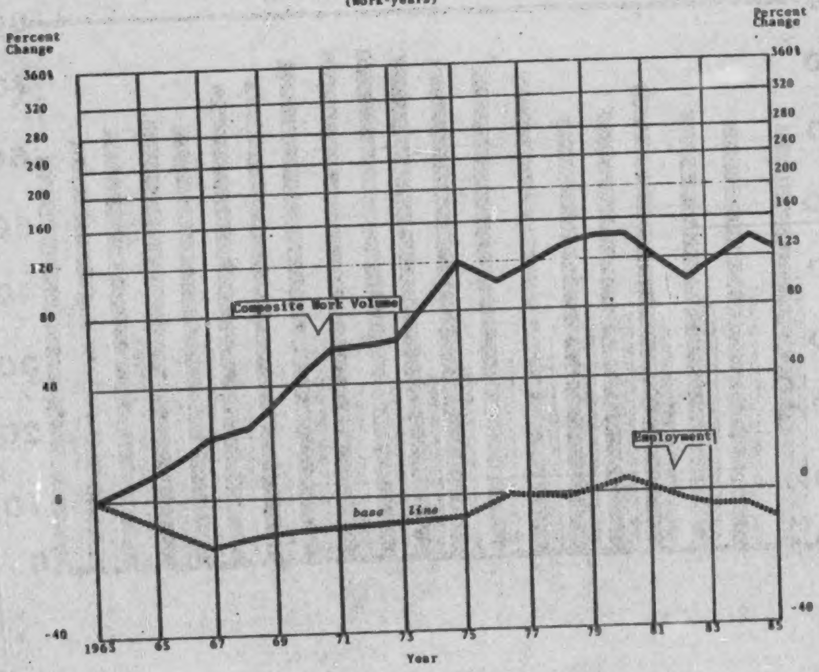
Workload and Employee-Years

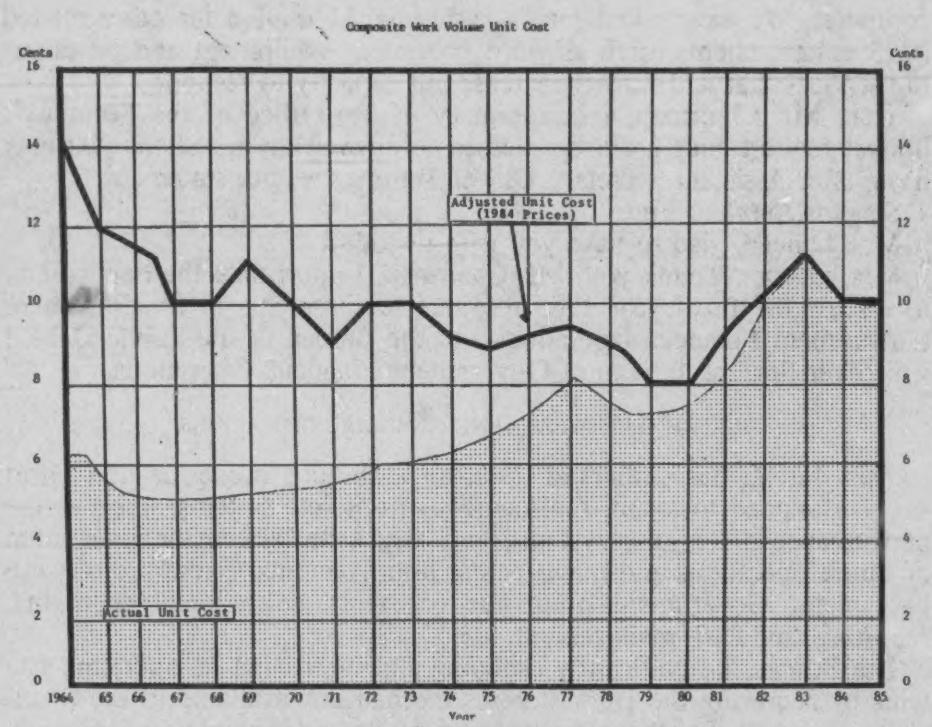


1/ Documents processed are payments issued in the form of checks, bonds, or EFT

PERCENT OF CHANGE IN COMPOSITE WORK VOLUME AND EMPLOYMENT FROM BASE YEAR

(Work-years)





OFFICE OF THE SECRETARY BUDGET REQUEST

Mr. PICKFORD. The Office of the Secretary's fiscal year 1985 budget request totals $84.2 million, an increase of $17.1 million. This increase is made up of two parts: $2.5 million to maintain the current level of operations, and $14.6 million related to program increases. There are three major program increases requested for the Office of the Secretary.

First, is $5.7 million for the repairs and improvements program to renovate the Treasury Annex Building. The annex was constructed in 1919 and has had no major renovation during its 65 years of existence. The proposed move by the Bureau of Government Financial Operations from the annex will provide the Office of the Secretary with the ideal opportunity to undertake the necessary modernization while the building is unoccupied.

Second, $5.4 million is requested for an enhanced telecommunications operations center. This project will involve major telecommunications center renovations in the Main Treasury Building to support the development of advanced equipment and services for an improved telecommunications operations center, as well as the conversion of the existing Centrex telephone system to a digital telephone system.

And finally, $3.4 million for ADP improvements. The Office of the Secretary is not requesting additional positions, but is relying on expanded automation and computerization to handle the increasing complexity and quantity of workloads. Of this amount, $2.4 million is requested to upgrade or replace the Office of the Secretary's mainframe computer. We have asked for an additional $1 million for other related ADP enhancements, such as word processing equipment and timesharing services that will further increase our capacity to respond.

That, Mr. Chairman, is a summary of the Office of the Secretary's budget request, and I will be pleased to answer any questions you may have, after Assistant Secretary Dineen summarizes her statement.

Senator ABDNOR. Fine.

Mrs. Dineen, glad to have you with us today.

Mrs. DINEEN. Thank you, Mr. Chairman. I appreciate the opportunity to discuss the fiscal year 1985 resource requirements of the Bureau of Government Financial Operations and the Bureau of the Public Debt. I will cover first the Bureau of Government Financial Operations.

BUREAU OF GOVERNMENT FINANCIAL OPERATIONS

This Bureau has embarked upon an ambitious modernization effort that is designed to assure replacement of obsolete systems, improve the performance of existing systems, and assure the systematic integration of future operations and management improvements. These projects impact major Government programs: payments, collections, accounting, reporting, and cash management.

The Bureau is significantly changing and improving its operating systems by acquiring the latest systems mechanisms available in the financial community for the movement of funds and financial information. Of great interest are numerous cash management initiatives which, when implemented, will recover hundreds of millions of dollars in annual interest savings in the years ahead. In fiscal year 1985 alone, these initiatives will recover over $800 million in interest savings. Stated another way, the return on investment applied to these initiatives is more than $33 for every $1 proposed to be spent in fiscal year 1985. An additional $4 billion in interest savings is projected for fiscal years 1986 through 1988, causing the return on investment to increase many fold in the years ahead.

In fiscal year 1985, the Bureau will continue to make significant investments while at the same time spending less money and reducing the total number of average positions required. Resource requirements are $239,908,000 and 2,327 average positions, a reduction of $87,000 and 166 average positions from fiscal year 1984. This is the second consecutive year in which our funding level and number of average positions have decreased, reflecting improved efficiency and economy of operations for the Bureau. With this request, the Bureau will have the resources necessary to fulfill its mission while keeping pace with the latest technological advancements in the financial community.

ADMINISTERING THE PUBLIC DEBT

I turn now to the Bureau of the Public Debt. For administering the public debt of the United States we are requesting an appropriation of $198 million in fiscal year 1985, an increase of $1.5 million over the amount available for fiscal year 1984. This figure covers funding requirements for both the Bureau and the U.S. Savings Bond Division.

As you know, the latter is a separate organization, charged with promoting the sale of U.S. savings bonds, and its requirements will be covered in a separate statement. Program increases for the two organizations amount to $3.2 million, and other increases necessary to maintain current levels total $7.3 million. These increases are largely offset by reductions of $9 million for productivity savings, management improvements, and nonrecurring costs.

The request for the Bureau of the Public Debt, which totals $180.4 million, reflects significant savings resulting from several improvements in management systems. The savings are indicative of the Bureau's commitment to improving its operations through automating securities handling processes and enhancing internal controls.

This year's request reflects major savings resulting from instituting full book-entry for marketable securities. The move to fullbook-entry will provide improved service and reduced risk of lost securities to investors, as well as cost savings to the Bureau. Net cumulative savings in excess of $43 million will be realized over 7 years as the new system is phased in.

Improvements also continue to be made in the issuance and retirement of savings bonds. For example, significant savings are projected in fiscal year 1985 due to improved technology in the capturing of savings bond data in our automated systems.

That concludes my prepared statement on the fiscal service operating bureaus, Mr. Chairman. I will be glad to respond to any questions that you and members of the subcommittee may have, but I believe Mr. Rolufs has an opening statement, as well.

Senator ABDNOR. Fine.

Mr. Rolufs, we are happy to have you with us today.

Mr. ROLUFS. Thank you, Mr. Chairman.

Mr. Chairman, it is a pleasure to testify on the fiscal year 1985 budgets of the U.S. Savings Bond Division and the U.S. Mint. I am proud of their accomplishments and believe they will continue to meet in an outstanding fashion their responsibilities.

U.S. SAVINGS BOND DIVISION

I am pleased to report that 1983 was a very good year for the Savings Bonds Division. The savings bonds program achieved higher sales than in recent years, and the amount outstanding reached more than $71 billion, which saved the Treasury—and taxpayers—more than $2.5 billion, thereby cutting Government spending.

The savings bond program continues to make an important contribution to our overall public debt management objectives. The program provides an opportunity for millions of Americans to participate in the financing of their Government, and to develop habits of individual thrift, which contribute to our broader economic objectives of increasing savings and reducing inflation.

Today, nearly 6 million people participate in payroll savings plans where they work. And in a recent survey, many of those employees said that if the easy, convenient payroll savings plan did not exist, they would not save at all.

Savings bonds represent the best savings plan that anyone can choose, and they continue to be America's favorite way to save.

I am also pleased to say that the savings bonds program continues to show encouraging sales growth. As of September 30, 1983, sales of series EE and HH bonds amounted to $4 billion, 29 percent above 1 year ago, and 114 percent of the fiscal year goal. Redemptions of savings bonds during the same period fell to $6 billion, a reduction of 31 percent from the same period 1 year ago.

It is from this favorable base that we make our fiscal year 1985 request of $17.5 million and 276 average positions.

During fiscal year 1985, the Division will continue to concentrate its efforts on those accounts which offer the greatest sales potential in order to make the most cost-effective use of existing staff and volunteer resources.

U.S. MINT

The U.S. Mint's salaries and expense appropriation request for fiscal year 1985 is $47.758 million and 1,078 average positions. This is a reduction from the fiscal year 1984 continuing resolution of $1,242,000 and 57 average positions. This request will allow the Mint to produce 19.1 billion coins. Combined with the 1 billion coin inventory drawdown, this production will satisfy the Federal Reserve's requirements of 20.1 billion coins. The Mint has been able to meet a high demand for coins without increases in personnel through streamlined operations and sound management.

Streamlined operations include the reorganization of Mint headquarters, consolidation of the San Francisco Old Mint and the San Francisco Assay Office, the discontinuation of the Philadelphia strip operations and the development of additional private sector suppliers of coinage strip. The conversion to a zinc penny has resulted in substantial savings due to the lower cost of zinc metal.

We are all proud of the Mint's numismatic efforts. Through aggressive marketing, the George Washington commemorative half dollar program has been a resounding success. We are confident that the Olympic coin program will be as successful. In fact, as of today we have already delivered about $33.7 million in surcharges to the U.S. Olympic Committee and the Los Angeles Olympic Organizing Committee. This is the most money ever generated by the sale of Olympic coins by any country.

The Mint is planning ahead to continue their outstanding record of meeting coinage demand in a cost-effective manner. The 7-day workweek experiment, conducted in fiscal year 1983, will help to insure that increased coinage demand will not necessitate as great an increase in permanent personnel, as has previously been the case. The Mint plans to update its long-range ADP plan, and develop a new ADP system. In conjunction with this effort, the Mint will fully automate its customer order processing system. Finally, the Mint will improve and expand the Denver Mint to allow for more efficient use and increased production capacity.

Mr. Chairman, in closing, I would like to thank you and your committee for your continued support, and I look forward to working with you to build upon our achievements.

Senator ABDNOR. Thank you, Mr. Rolufs.

Anyone else?

Very good.

OFFICE OF THE SECRETARY-INSPECTOR GENERAL FUNDING

The Inspector General is requesting an increase of $85,000 for word processing equipment in fiscal year 1985. That is the only increase. The positions remain the same.

I want to congratulate you for the way you hold the line. But how do you maintain the 128 positions funded last year, and is it requested in 1985, the same dollar amount?

It is not because, I am sure, we overfunded the function last year, but how are you able to do this? Maybe it will help us with other agencies.

Mr. PICKFORD. Mr. Chairman, I am going to have to answer that for the record.

Senator ABDNOR. You can provide that for the record.

[The information follows:]

INCREASE FOR THE OFFICE OF THE INSPECTOR GENERAL

The Office of the Inspector General is requesting a total increase of $292,000 above the fiscal year 1984 level for fiscal year 1985. Of this amount, $207,000 is for inflationary cost increases required for this Office to maintain the same level of operations in fiscal year 1985 as in fiscal year 1984. The remainder of the $292,000 is for a program increase of $85,000 for equipment maintenance contracts for the upkeep of word processing and ADP equipment purchased in previous years. The total increase provided will allow the Office of the Inspector General to provide the same level of services in fiscal year 1985 as it did in fiscal year 1984.

CONSULTANT FEES REQUEST

Senator ABDNOR. The Office is requesting $65,000 for consultants in the fiscal year 1985. How does this compare with the 1984 consultant fees? Is it comparable, higher, or less?

Mr. PICKFORD. The 1984 level is approximately $1 million, and we are asking for $65,000 above that level.

Senator ABDNOR. Oh, you are asking for $65,000 more than the $1 million you had before.

All right.

Mr. PICKFORD. Yes, sir.

RENOVATION OF THE TREASURY ANNEX

Senator ABDNOR. Under the Bureau of Government Financial Operations, they will be vacating the annex, I am told. When the renovation is completed, what are you going to do with that space?

Mr. PICKFORD. When the Bureau of Government Financial Operations vacates the annex, we intend to centralize the various offices that are part of the Office of the Secretary, which are now spread out in six different locations in the District of Columbia. We are going to move those offices into the annex, so that most of the components of the Office of the Secretary will be in contiguous office space.

In fact, there is a tunnel underneath Pennsylvania Avenue that connects the two buildings. The renovation will consolidate the majority of the Office of the Secretary components into the same geographic location.

Senator ABDNOR. Fine.

GS-11 THROUGH GS-15 REDUCTION

In your statement you indicated a reduction of $139,000 for the GS-11 through GS-15 initiative. How many positions does that translate into?

Mr. PICKFORD. We will be achieving a savings of $139,000 due to the grade reduction program. This program is designed to reduce the number of positions in the GS-11 through GS-15 grade range; however, it is not intended to reduce the total number of positions. We have been instructed by OMB and OPM to achieve this $139,000 savings in fiscal year 1985, but we will not be reducing the number of positions. Instead, we will be hiring new employees at lower grade levels in order to reach the grade reduction targets.

Senator ABDNOR. Well, we will be interested in seeing how it continues.

Mr. PICKFORD. So am I.

RENOVATION OF THE TREASURY ANNEX

Senator ABDNOR. A lot is said about the renovation of that annex. I guess we got into that last week. But what is going to take place in renovating the annex?

Mr. PICKFORD. Well——

Senator ABDNOR. How long is it going to take? How much? I guess we got into the cost last week, when the Secretary was here, but what are you going to be doing over there?

Mr. PICKFORD. We are going to go in when BGFO vacates the building, and undertake major renovations while the building is unoccupied.

We are going to upgrade the heating, ventilating, and air-conditioning system. We are going to repair the elevators, upgrade the electrical system, modernize the plumbing and restrooms, and replace the building's windows which are over 65 years old. We are also going to be cleaning and pointing the exterior of the building.

I will give you a more detailed answer for the record.

Senator ABDNOR. Yes; I think that one we would like to know, because it is quite a subject, that is, coincidental, the amount comes out of one other area, Treasury.

Mr. PICKFORD. I understand that. This project has been planned for a number of years, so I will clarify that for the record, and give you the chronology of how we plan to complete it.

Senator ABDNOR. I think that would be good. We are aware of it, but we would just like to have it in the record.

Mr. PICKFORD. Certainly.

[The information follows:]

REPAIRS AND IMPROVEMENTS REQUEST

The Office of the Secretary (OS) is requesting $5,683,000 in fiscal year 1985 for repairs and improvements projects to renovate the Treasury Annex Building. The annex was built in 1919 and has had no major renovation in its 65 years of existence. The upper six floors of the building are currently occupied by the Bureau of Government Financial Operations (BGFO). BGFO is planning, however, to vacate the annex and move to other space to centralize its operations. A prospectus for this consolidation is being considered by the House Public Works Committee.

Major rehabilitation of the buiding's heating, ventilating, air-conditioning, electrical, and lighting systems will have to be faced within the next 3 to 5 years as the building's systems deteriorate with age and are stressed by current demands for more intensive utilization, power requirements for automated equipment, and cooling requirements to protect electronic equipment. The BGFO move will provide the Office of the Secretary with an ideal opportunity to renovate the building while it is unoccupied.

Among the projects that will be funded with the $5,683,000 requested are: upgrading and replacement of the electrical distribution system; a major overhaul and redesign of the heating, ventilating, and air-conditioning system, the lighting system, and partitions and ceiling systems; modernization of plumbing and restrooms; replacement of windows; improving compliance with current life safety and fire safety codes; removal of architectural barriers to the handicapped; modernization of the loading dock facilities; and cleaning, pointing, and birdproofing the building's exterior.

It is anticipated that the entire renovation process, including the space planning and design, procurement, and construction stages, will take approximately 3 years to complete. Once this renovation is completed, the building will have a useful lifespan of 30 to 40 years. The Office of the Secretary plans to use the renovated building to consolidate the majority of its offices now located in leased space to one central location—the annex building.

ADP IMPROVEMENTS

Senator ABDNOR. Mrs. Dineen, the ADP has been a high priority within the Department, and the committee has willingly supported improvements, because we felt it was necessary. Could you outline what future considerations you have going on over there with ADP?

Mrs. DINEEN. We will be modifying the equipment we need for printing checks. We will be moving to a paper check and using computerized check printing equipment. We also will be replacing our very old check payment and reconciliation system, the software on that system is some 25 years old.

We will be implementing some short-term improvements in our payment mechanisms which were recommended by an advisory panel composed of public and private sector experts who looked at what our payments mechanisms should be in the future. We will be doing the same thing on the collection side, again at the recommendation of a panel of experts, who recommended new collection mechanisms. We will be completing the conceptual design for the new consolidated accounting, reporting, and evaluation system, as part of an overall effort to improve the Government-wide accounting system. We will be enhancing agencies' abilities to comply with the Prompt Payment Act, by providing more controlled disbursing capability through our electronic funds transfer system. And we will continue to increase the number of payments made by direct deposit.

Senator ABDNOR. Very fine. That seems to do wonders, that equipment. I guess we should have had it a long time ago, in many of our agencies. Matter of fact, I was interested, you are going to recover, you said, in fiscal 1985, under the Bureau of Government Financial Operations, over $800 million in interest savings?

Mrs. DINEEN. Yes, sir.

Senator ABDNOR. And you were saying that your two groups will require increases, $3.2 million in one area, and another to maintain current levels, $7.3 million, and these increases are largely offset by reductions of $9 million in productivity savings. So you have got the increases, and yet you do not need to ask for any additional.

Mrs. DINEEN. Well, sir, I think those statistics that you are citing are for the Bureau of Public Debt.

Senator ABDNOR. Yes; but I am just saying, though, that the whole thing is through your good management. The Treasury is able to make the savings, so the extra dollars can be put in other areas of the budget, without adding more dollars to the overall budget, is that right?

Mrs. DINEEN. Yes, sir.

Senator ABDNOR. That is fine.

Let me ask you some questions about the BGFO. You are requesting a decrease in average positions again in fiscal 1985. Is this due to the continued improvements in automation?

Mrs. DINEEN. Yes, sir. We are showing a decrease of 166 average positions, of which 130 are due to increased productivity, and more automation. The others are a workload transfer, there are 36 positions in the transfer category.

ELECTRONIC FUNDS TRANSFER

Senator ABDNOR. I note the emphasis is being placed on the electronic transfer within the Federal Government. What percentage of transactions, would you say, are currently done electronically?

Mrs. DINEEN. Twenty-seven and one-half percent of all the Government payments are now being made electronically.

Senator ABDNOR. Are you shooting for 100 percent, some day?

Mrs. DINEEN. I would like to, but I think that is a little unrealistic. Our goal is to reach 80 percent by 1990.

Senator ABDNOR. How much would that save, do you suppose?

Mrs. Dineen. We would save approximately 21 cents for each payment transferred from check to EFT.

Senator Abdnor. But what year are you shooting for that, 19 what?

Mrs. Dineen. 1990.

Senator Abdnor. Your postage requirements are down, too, is that right?

Mrs. Dineen. Yes; that is true.

Senator Abdnor. Does that mean more and more people are taking payments through automatic deposits?

Mrs. Dineen. Yes; over a number of years we have averaged an 18- to 19-million increase in EFT transactions, which of course, takes away from a paper-based transaction. However, last year our increase was $36 million. So things do look encouraging, and we are moving more and more to electronic funds transfer, and away from postage.

Senator Abdnor. Is there even more to be done to encourage more of it?

Mrs. Dineen. Yes, sir. As a matter of fact, we have a whole plan laid out to reach that goal of 80 percent that I talked about earlier. We are going to continue our marketing efforts; we are converting all of our miscellaneous payments, or payments to vendors, to electronic funds transfers; we are going to streamline the enrollment procedures to make it easier for individuals to sign up for direct deposit.

We have introduced legislation eliminating allotment fees, which would result in a conversion of all allotments to EFT by 1987, and we are going to introduce legislation permitting the Secretary of the Treasury to select the method of payment for Federal employees' paychecks, but I hasten to add that we would make that mandatory only for people who already have bank accounts.

RELOCATION

Senator Abdnor. Where is the BGFO moving to?

Mrs. Dineen. We do not know.

Senator Abdnor. We have extra space around somewhere.

Mrs. Dineen. OMB and GSA have approved the prospectus for a consolidated headquarters building somewhere in the Washington metropolitan area. We do not know whether there is a building available which could be renovated or remodeled, or one which has to be constructed. I understand that the subcommittee of the House Committee on Public Works is going over this prospectus.

Senator Abdnor. Well, that sounds like you thought you might have had it solved and it did not work out.

PAPER CHECKS

Has the Air Force pilot project on paper checks begun as of this time?

Mrs. Dineen. No, sir, it has not. A protest was filed by one of the vendors, and that protest is currently under review by GAO. It has caused several delays in that pilot, and we do not have a rescheduled date yet for the pilot.

Senator ABDNOR. Why did they object to it?

Mrs. DINEEN. One of the vendors apparently entered an objection to the procurement. Since the procurement was managed by Air Force, I really do not have very many details on what the issues are.

Senator ABDNOR. So we do not really have any preliminary results of how it is working?

Mrs. DINEEN. No, sir, we do not. If the Air Force pilot gets totally derailed, and I hope it does not, we propose to go forward with introducing paper checks from a Treasury Disbursing Center, in early 1985.

Senator ABDNOR. Well, is there anything that you can do to educate them on it?

Mrs. DINEEN. We had a study done by a consultant, to determine what level of public awareness campaign we would have to conduct, and we plan on conducting a fairly extensive one, using every available means. We will hire a contractor to do that for us.

Senator ABDNOR. Good luck.

Mrs. DINEEN. We also expect the Congress to help us.

Senator ABDNOR. Maybe we could be of some help if we really tried.

TRAVEL CEILING

The Bureau has undertaken considerable upgrade of its automated systems now, that undoubtedly takes manpower to coordinate the on site preparation.

In the review of the justification it makes me believe that travel allowance is not sufficient, is that wrong, or right?

Mrs. DINEEN. Sir, you are correct. The fiscal year 1985 travel ceiling would not be sufficient to allow the Bureau to realize fully the increased interest savings resulting from all our modernization efforts. There is also some travel required to increase the security in our disbursing centers.

We would not propose to increase the funds for the Bureau of Government Financial Operations, but one possible solution might be to obtain permission to reprogram funds from some other area of the Bureau, to increase the amount of travel that we can do.

Senator ABDNOR. Well, that is what you are planning now, but if it does not work, what do we do then? I mean, you are going to have to have funds.

Mrs. DINEEN. We have been going through the process of setting priorities, and deciding which improvement efforts are least harmed or must be cut back.

Senator ABDNOR. How much do you think is the shortfall? Do you have any idea yet? I mean, it is unfair to ask that far in advance.

Mrs. DINEEN. Yes; as we now have analyzed it, it looks like we are $200,000 to $300,000 short of what we really need based on projected activities and fiscal year 1985 rates.

Senator ABDNOR. OK. Thank you.

Let me jump over to the public debt, which is also a big thing.

PUBLIC DEBT BOOK-ENTRY

Could you briefly describe how the full book-entry works?

Mrs. DINEEN. Let me——

Senator ABDNOR. The impact of it?

Mrs. DINEEN. Yes, sir.

Senator ABDNOR. And is it going over well? Are people accepting it?

Mrs. DINEEN. Well, the corporate book-entry system has been in place, and has been very successful. We feel that by going to full book-entry, we will be providing investors better service, better treatment, we will be providing them with much simpler reinvestment opportunities, and we will be paying them electronically, which is also attractive.

Furthermore, each customer will now have—each individual customer, I am talking about, will now have a single account for all bill, note, and bond issues, rather than having to keep track of multiple instruments.

Senator ABDNOR. It should be fairly popular then.

Mrs. DINEEN. We expect it to be, yes, sir.

Senator ABDNOR. This budget requests the first installment for ADP upgrade. Now, the mainframe is to be replaced, I think, during fiscal year 1985. A 5-year program is anticipated.

Do you have any idea what it will cost?

Mrs. DINEEN. The cost, over the period of fiscal 1985 to 1990 is expected to be $9.2 million, partially offset by the increasing cost of maintaining our current system.

However, I point out that it is not just a cost issue, because our current mainframe, which is a Univac 1110, is obsolete, and after January 1986, the vendor will no longer maintain the operating system software and replacement parts needed to keep the system in good condition will be increasingly difficult to find.

Senator ABDNOR. That is one of the benefits.

Marketable and special Treasury securities comprise 95 percent of the outstanding public debt.

Could you briefly describe what is entailed, and how the Bureau accomplishes its mission?

It is really a tough one there.

Mrs. DINEEN. Could you repeat the last part of that question, please?

Senator ABDNOR. Could you just describe what is entailed in how the Bureau accomplishes it, that is all. Ninety-five percent of the outstanding public debt is comprised of marketable and special Treasury securities.

Just put it in the record.

Mrs. DINEEN. Yes; I will have to give you an answer to clarify that for the record.

[The information follows:]

The total public debt outstanding as of February 29, 1984, was $1,457,544,000,000, of which $1,100,064,000,000 (75 percent) represented marketable debt in the form of U.S. Treasury bills, notes, and bonds. The marketable portion of the total debt entails the performance of various essential functions relating to the issuance, servicing, and retirement of securities, both directly by the Bureau of the Public Debt and through the

Federal Reserve Banks acting as fiscal agents of the Treasury. These functions include (1) the establishment, maintenance, and servicing of individual accounts of owners of securities in registered and book-entry form, (2) authorization of interest and principal payments to investors, and (3) maintenance of accounting control over financial transactions, securities transactions and accountability, and interest cost.

In developing resource requirements for fiscal year 1985, the Bureau based its estimates on a financing frequency of 117 Treasury bill issues, with 13-week and 26-week bills to be auctioned weekly and 52-week bills to be sold every fourth week, and 40 issues of Treasury notes and bonds throughout the year. This estimate of financing activity is very similar to that of prior years and reflects Treasury's belief that a stable pattern of offerings has a beneficial effect on the marketplace.

DRAWNDOWN ON COINS

Senator ABDNOR. Thank you.

I understand that you are willing to answer the questions on the Mint here, too.

The Mint will produce 19.1 billion coins, and drawdown 1 billion coins from the reserves.

Now, what impact does the drawdown have on the reserves?

INVENTORY DRAWDOWN

Mr. ROLUFS. The impact will be negligible, in that during a period of time, over the last 2 years, the inventories built because the projections that were developed with the Federal Reserve, were incorrect. So that we ended up with more coins in reserve than were actually needed, in our opinion.

Senator ABDNOR. So the reserves, you still have a lot of?

Mr. ROLUFS. Yes, sir, we do.

Senator ABDNOR. Do you have any idea of what the total of the reserve is?

Mr. ROLUFS. At the end of the drawdown it will be 4.4 billion coins.

Senator ABDNOR. Is it usually that large?

Mr. ROLUFS. We believe that we need it that large to take care of surge demands from the banks, from the various banks around the country.

Senator ABDNOR. Does that make a lot of storage costs for you?

Mr. ROLUFS. A great deal of that is shared with the Federal Reserve Banks, in that they maintain a lot of the storage also.

STRIP OPERATION

Senator ABDNOR. Well, the strip operation has been totally dismantled, and all strip supplies are contracted. What are the savings? Has there proved to be a savings?

Mr. ROLUFS. I would have to submit that for the record, sir.

[The information follows:]

In fiscal year 1983, the Mint officially terminated the Philadelphia Mint melting and strip operations and began to totally rely on the private sector for coinage strip supplies. This move was made because of funding constraints, because there was no cost advantage to the in-house strip operations, and because of the capital investments which would have been needed to make the in-house strip operations effective and in compliance with health and safety requirements. By discontinuing the melting and strip operations, the Mint has been able to reduce its appropriated budget request by $5.1 million and 158 full-time permanent positions.

PRIVATE SECTOR COMPETITION

Senator ABDNOR. All right. While you are at it, tell us also, is there adequate competition in the private sector?

Mr. ROLUFS. The competition in the private sector is being developed. Currently there is one supplier that is fully qualified for strip, clad strip.

We have, over the last year, developed a second supplier for the material that goes into the coin, such as the nickel, cupronickel, and we are in the process of developing additional suppliers for clad strip.

We have contracts with three firms for experimental submission of 40,000 pounds of clad strip. We are in the process of evaluating those suppliers.

ONE-CENT COIN

Senator ABDNOR. We hear a lot about pennies, and they make up the largest percentage of the coins produced today, I guess. Is that a cost-effective program, the pennies? Do we have to have them? Can we prove them worthwhile? Are they cost effective?

Mr. ROLUFS. From a manufacturer's perspective, it certainly is. We manufacture the penny at considerably less than a penny, and with the advent of the zinc penny, that has gotten to be an even better relationship.

Senator ABDNOR. Well, actually the cost is offset by the return. I mean, do you have a good return on them?

Mr. ROLUFS. More than, yes.

FULL-TIME AND PART-TIME POSITIONS

Senator ABDNOR. Your statement indicates that the Mint will reduce the number of full-time employees, and increase the part-time people.

Now, this may be cost effective because of cost related to full-time personnel. But are these people adequately trained to provide the maximum operating production and efficiency?

Mr. ROLUFS. Last year we did an experiment to determine that very question. The experiment indicated that in a short period of time, 2 months, we were able to bring the part-time people almost to the same productivity level that the full-time people were operating at.

Senator ABDNOR. How much does a part-time worker—how much time does that consist of, in a week, or a month?

Mr. ROLUFS. When we did the experiment, they were working on a full-time basis, they were only part-time employees from the perspective that they came in when we needed them.

Senator ABDNOR. Are they always there when you need them, or do you have to turn around and train another bunch, after a certain time?

Mr. ROLUFS. I would anticipate that we would need to develop a labor pool so that we would have trained people available. Certainly people who are part-timers are always looking for a full-time job, I am sure.

Senator ABDNOR. Well, does it take a long time to train these people? Is it expensive?

Mr. ROLUFS. Again, the training period to full productivity level was less than 2 months.

Senator ABDNOR. That could become a constant program.

Mr. ROLUFS. If we were not able to obtain a labor pool, certainly, at which point we would have to say that we would have to reconsider.

Senator ABDNOR. That is right. That versus a time. Maybe we could not keep them as busy as they ought to be, still it might be cheaper in the long run, rather than planning to do it the other way.

Mr. ROLUFS. Yes, sir.

Senator ABDNOR. That will show up in time, I am sure.

Mr. ROLUFS. Again, the two markets that we operated in, indicated that that would not be a difficulty.

SECURITY STAFF

Senator ABDNOR. How many personnel comprise the security staff, do you have any idea on that? You could supply it for the record.

Mr. ROLUFS. I am told it is 152.

Senator ABDNOR. One hundred and fifty-two? Is that a pretty constant figure, I suppose?

Mr. ROLUFS. From my experience at the Mint, I would say it is.

DENVER MINT EXPANSION

Senator ABDNOR. I am most interested in your discussion about the contract problems associated with the Denver Mint expansion. Is there a light at the end of the tunnel, or something you would rather not talk about?

Mr. ROLUFS. It is very dim. We have experienced considerable difficulty there in terms of qualifying a contractor, and if the contractor that is under consideration now is not qualified, I believe that we have run out of Small Business Administration contractors.

Senator ABDNOR. The figure you can give us for the record, a chronology of what occurred so that we can see at least what we have done in the past.

I see you nodding your head——

Mr. ROLUFS. For the record, we will submit that. We have it, in fact, now.

[The information follows:]

As a result of planned expansion of Mint facilities, it was determined that the Denver Mint would begin specific expansion and improvement plans for that facility on or about April 1981. Since that date, through the General Services Administration (GSA), the architect engineer firm of Roger-Nagel-Langhard (RNL) was selected.

Subsequent to the selection of the A&E contractor, some difficulty was experienced with the Small Business Administration (SBA) concerning whether or not the construction contract should be set aside for a minority small business. After the SBA determined that the project need not be a minority business set-aside, bids were solicited and opened on November 30, 1983. The low bidder was Trautman-Shreve, Inc., however, four protests were filed and on February 1, 1984, we learned that the low bidder was not approved by the SBA.

The SBA certified the second lowest bidder, Caddell Construction Co., however, the GSA recently completed its audit and submitted a negative recommendation because the company has not been in business for 5 years and has a precarious financial structure. If the SBA accepts this recommendation, it is very likely that the contract award will not occur before May 1, 1984. GSA is proceeding to evaluate the third lowest bidder, Foster-Western.

PHILADELPHIA CONVERSION

Senator ABDNOR. Will a Philadelphia conversion be possible? I mean, would a possible conversion forestall further expansion need?

Mr. ROLUFS. Yes, sir. The space at Philadelphia will take up to 60 additional production presses, and it would forestall expansion needs until such time as the capacity of those presses run out, or even beyond that, if we discovered technology that will allow us to produce more quickly than it would take us longer than those 60 presses even.

Senator ABDNOR. Is there technology coming, do you think, soon?

Mr. ROLUFS. I believe that the Mint is experimenting, or will begin to experiment soon, with a new press, which at least on the higher denomination coins, appears to offer increases in productivity.

GOLD AUDIT

Senator ABDNOR. Is the gold audit a continuous procedure?

Mr. ROLUFS. Yes, sir, it is.

Senator ABDNOR. Did you find any discrepancies in your audit?

Mr. ROLUFS. To date, we have not found any discrepancies, and the audit is ongoing, and we are 94 percent complete at the moment.

Senator ABDNOR. What is the difference between a fine troy ounce and a troy ounce?

Mr. ROLUFS. Mr. Chairman, I do not know.

Senator ABDNOR. I do not, either. Tell it for the record, if you will.

Mr. ROLUFS. Yes, sir.

[The information follows:]

A troy ounce and a fine troy ounce have the same weight. A troy ounce is a unit of weight for an object, while a fine troy ounce is the unit of weight for the precious metal content of the object.

For example, a bar weighing 100 troy ounces, 75 percent of which is gold, is said to contain 75 fine troy ounces of gold. The fine designation refers to the pure metal, excluding impurities.

The Treasury's bullion schedules list the troy ounce weight of the bar, its assay, and the fine troy ounces of gold and/or silver contained within the bar.

PROJECTED SALES INCOME FROM MINT SETS

Senator ABDNOR. What is the projected sales income from the Mint sets?

Mr. ROLUFS. Uncirculated, or the proof?

Senator ABDNOR. Both. We want both of them, yes.

Mr. ROLUFS. The projected income is $12 million profit.

Senator ABDNOR. How much?

Mr. ROLUFS. Twelve million dollars on the profit from those.

Senator ABDNOR. OK, thank you.

SUSAN B. ANTHONY DOLLAR

We still have 361 million Susan B. Anthony dollars. You would probably rather not talk about that—in storage. Does it cost much for storage?

Mr. ROLUFS. Yes, sir, there are some that it does cost money for. For instance, we have some of them in deep storage, in Denver, at the Federal Reserve. That costs us, I believe it is $18,000 a year to store those.

Senator ABDNOR. What happens if you melt them down? Would you get a big uproar?

Mr. ROLUFS. There becomes a very tricky financial question there, in terms of the seigniorage, which no one seems to be able to answer adequately, as to what the effect on the economy would be.

Senator ABDNOR. Could we turn around and make them into something else?

Mr. ROLUFS. I have had lots of offers, at 90 percent on the dollar for them.

Senator ABDNOR. Over a period of years it might be a bargain.

TWENTY-FIVE CENT COIN

The quarter is becoming used all the time. It seems it takes a quarter for whatever you run. Do you have to keep making more of those all the time, the quarter, 25-cent piece?

Mr. ROLUFS. It varies slightly.

Senator ABDNOR. I guess they keep moving them.

Mr. ROLUFS. Yes.

Senator ABDNOR. If people go through quarters like I do, they would have to collect them in a hurry, to pass them back around.

LONG-RANGE PLAN

There is no expansion and improvement request for fiscal year 1985, and we will wind up the $18 million multiyear project in Denver, and this will carry us up to the end of the decade.

Is a long-range program being developed to be in place when the current capacity is reached?

Mr. ROLUFS. We are looking at a long-range program at the moment, to determine what capacities, if any, that would be needed after that.

Senator ABDNOR. Not that we are all encouraging it, I guess.

I think I have asked you every question I could think of here, and you gave a fine presentation. You obviously do very fine work down there, and we thank you for your attendance today, and look forward to working with you.

Thank you all very much.

OFFICE OF PERSONNEL MANAGEMENT

STATEMENT OF DONALD J. DEVINE, DIRECTOR

ACCOMPANIED BY:

WILLIAM M. HUNT, ASSOCIATE DIRECTOR, ADMINISTRATION GROUP
JAMES W. MORRISON, JR., ASSOCIATE DIRECTOR, COMPENSATION GROUP
JEAN BARBER, ASSISTANT DIRECTOR FOR FINANCIAL CONTROL AND MANAGEMENT, COMPENSATION GROUP
SIDNEY M. CONLEY, ACTING ASSISTANT DIRECTOR FOR FINANCE AND BUDGET
JAMES M. LOISELLE, ACTING BUDGET OFFICER

INTRODUCTION OF ASSOCIATES

Senator ABDNOR. Our final witness today will be the Director of the Office of Personnel Management, Donald J. Devine and his people.

We want to thank you for coming early. I know we moved up a little on you. We appreciate the fact that you did make the effort to help us out.

We want to welcome you and your associates to the committee. I know you have two different statements, you are just going to roll into one. So we will let you go ahead and introduce your panel. The entire statement will be placed in the record, and proceed however you care.

Mr. DEVINE. Thank you very much, Senator Abdnor. It is a pleasure to be here, and I am accompanied by Mr. William Hunt, our Associate Director for the Administration Group; Mr. James Morrison, Jr., Associate Director for the Compensation Group; Ms. Jean Barber, Assistant Director for Financial Control and Management; Mr. Sidney Conley, Acting Assistant Director for Finance and Budget; and Mr. James Loiselle, Acting Budget Officer.

FISCAL YEAR 1984 SUPPLEMENTAL REQUEST

I would like to first discuss very briefly our supplemental appropriation request of $203,173,000 in Government contributions to the civil service retirement and disability fund. This is the annual figure, representing the unfunded liability created by the recent pay increases, amortized in annual installments over a 30-year period.

The second supplemental request that we have is to exempt OPM's travel in support of the Voting Rights Act of 1965, from the limitations contained in the House passed bill, H.R. 4139, and carried forward by Public Law 98-151.

Third, appropriation language has been submitted to allow up to $12,000 in entertainment expenses for the President's Commission on Executive Exchange.

FISCAL YEAR 1985 BUDGET REQUEST

For the regular budget request, I would like to deal with each of the separate elements. We are requesting $111 million for salaries and expenses to fund the legislated program responsibilities of the Office of Personnel Management. The request is $3.9 million over our fiscal 1984 request, but I want to emphasize to the committee that this amount is actually 14.3 percent below the previous administration's budget request for fiscal 1982, and is actually 8.3 percent below the actual fiscal 1981 level.

We have been able to submit a budget over the past few years which has been this low because we have put a lot of emphasis in OPM to achieving administrative efficiences. From fiscal year 1981 to fiscal year 1984, $38 million in savings have been achieved by streamlining OPM operations, eliminating nonessential programs, and enhancing productivity. Since fiscal 1981, agencywide full-time equivalent requirements in personnel have been reduced by over 18 percent, and we expect that an additional management improvement effort underway in fiscal year 1984 will contribute to further reductions in operating overhead.

In the entitlement program area, which represents 98.3 percent of our total Agency appropriations, we are requesting the following payments.

First, $4.4 billion to provide for the aggregate amount of all the annual 30 year payments authorized since Public Law 91-93 was enacted in 1969, to finance that portion of the unfunded liability created by statutes which have resulted in pay and/or changes in retirement benefits since 1969. And I note that the supplemental appropriation request is for that same item, for the single increase resulting from last year's pay increase and the $4.4 billion is the accumulated payment.

Second, I would like to bring to your attention the $12 billion in permanent indefinite authority that is required by current law, this amount represents the interest required at 5 percent on the unfunded liability calculated using static assumptions.

I mention this amount not because it must be appropriated, but rather to allow you an opportunity to see the magnitude of the amounts required each year to finance the current retirement system.

The $12 billion includes about $9.7 billion, mainly due to increase in cost-of-living payments, $2 billion for credit allowed for military service, and about $280 million for contributions to make up the deficiency created by the funding provisions of the interim civil service retirement coverage for new employees now placed under social security.

Next, in the area of the Federal employees health benefits program area, we are requesting $1.3 billion to fund the Government's share of health benefit costs for annuitants and survivors.

Our fiscal 1985 request for the Government payment for annuitants, employee health benefits is almost 11 percent less than the fiscal 1984 appropriation. The cost containment features, we at OPM introduced in 1982, coupled with more informed plan selection by annuitants, are responsible for these savings, even though the number of annuitants under the program is expected to grow by about 84,000 over the fiscal 1983 numbers.

Transfer authority is requested for $51 million from trust fund accounts to administer the retirement and insurance programs. Here too, we have had management savings that have allowed us to keep these requests growing at a very moderate rate, and to increase services at the same time. Retirement claims on hand have been reduced significantly, from over 100,000 just before I entered, to around our normal processing level of about 25,000. Annuity overpayments have been reduced, and the debt collection procedures strengthened. Administrative actions taken to date in both the retirement and health benefits programs have resulted, or will result in savings of billions of additional dollars.

The committee should be made aware that we announced on March 8, 1984, a lowering of premiums in the life insurance program, while at the same time adding provisions to retire that program's unfunded liability.

In addition to these savings, our fiscal 1985 request includes legislative reform proposals for the retirement system which, if enacted, would save $1.2 billion in fiscal 1985, and $12.9 billion through fiscal 1989. The proposals are listed in our testimony.

Our legislative proposals for the employees health benefit program, if enacted, would, in addition, produce estimated savings of over $2.6 billion for fiscal 1986 through fiscal 1989.

SUPPORT FOR SMITH AMENDMENT

I would also like to reemphasize our support for retention of the general provisions contained in H.R. 4139 and Public Law 98-151, which provides that:

> No funds appropriated by this act shall be made available for an abortion, except where the life of the mother would be endangered if the fetus were carried to term, or the administrative expenses in connection with any health plan under the Federal employees health benefit program which provides any benefits or coverages for abortions, except where the life of the mother would be endangered if the fetus were carried to term, under such negotiated plans after the last day of the contracts currently in force.

This language commonly referred to as the Smith amendment, prohibits the use of funds to pay for elective abortions under the Federal employee health benefits program.

PREPARED STATEMENT

We have more detailed items in the testimony, but to try to save as much time as possible, we would just have those inserted in the record, and I would be happy to answer any questions you may have.

[The statement follows:]

STATEMENT OF DONALD J. DEVINE

FISCAL YEAR 1985 BUDGET REQUEST

GOOD AFTERNOON, I AM PLEASED TO BE HERE TO DISCUSS WITH YOU THE OFFICE OF PERSONNEL MANAGEMENT'S BUDGET REQUEST FOR FISCAL YEAR 1985.

MY COLLEAGUES THIS AFTERNOON ARE MR. JAMES MORRISON, ASSOCIATE DIRECTOR OF THE COMPENSATION GROUP, MS. JEAN BARBER, ASSISTANT DIRECTOR, OFFICE OF FINANCIAL CONTROL AND MANAGEMENT, COMPENSATION GROUP, MR. WILLIAM HUNT, ASSOCIATE DIRECTOR OF THE ADMINISTRATION GROUP, MR. SIDNEY CONLEY, ACTING ASSISTANT DIRECTOR OF THE OFFICE OF FINANCE AND BUDGET AND MR. JAMES LOISELLE, ACTING BUDGET OFFICER.

BUDGET SUMMARY

WE ARE HERE TODAY REQUESTING THAT YOU APPROPRIATE APPROXIMATELY $5.8 BILLION FOR FY 85. OUR REQUEST IS MADE UP OF:

— $111 MILLION FOR SALARIES AND EXPENSES TO FUND THE LEGISLATED PROGRAM RESPONSIBILITIES OF THE AGENCY. THIS REQUEST IS $3.9 MILLION OVER OUR FY 84 LEVEL, EIGHTY-EIGHT PERCENT OF WHICH IS DIRECTLY ATTRIBUTABLE TO FUNDING THE JANUARY 1984 EMPLOYEE PAY INCREASE AND THE INCREASE IN MANDATORY PAYMENTS REQUIRED BY THE GENERAL SERVICES ADMINISTRATION FOR SPACE RENTAL. HOWEVER, I WANT TO POINT OUT THE REQUESTED FY 85 LEVEL REPRESENTS A REDUCTION OF 8.3 PERCENT OVER THE ACTUAL FY 81 LEVEL AND 14.3 PERCENT BELOW THE PREVIOUS ADMINISTRATION'S FY 82 BUDGET SUBMISSION. WE HAVE BEEN ABLE TO ACHIEVE THESE REDUCTIONS IN OPERATING COSTS, WHILE SIMULTANEOUSLY IMPROVING AND STRENGTHENING DELIVERY OF OUR GOVERNMENTWIDE PROGRAM RESPONSIBILITIES, THROUGH A NUMBER OF MANAGEMENT INITIATIVES.

- FROM FY 81 TO FY 84, SAVINGS OF APPROXIMATELY $38 MILLION HAVE BEEN ACHIEVED BY STREAMLINING OPM OPERATIONS, ELIMINATING NON-ESSENTIAL PROGRAMS AND ENHANCING PRODUCTIVITY. OUR FY 85 REQUEST REFLECTS IMPLEMENTATION OF NEW MANAGEMENT INITIATIVES RESULTING IN REDUCED OPERATING COSTS OF AN ADDITIONAL ONE MILLION DOLLARS.

- SINCE FY 81, AGENCYWIDE FULL TIME EQUIVALENT REQUIREMENTS HAVE BEEN REDUCED BY OVER 18 PERCENT.

- SIMILARLY, WE EXPECT THAT ADDITIONAL MANAGEMENT IMPROVEMENT EFFORTS UNDERWAY IN FY 84 WILL CONTRIBUTE TO FURTHER REDUCTIONS IN OPERATING OVERHEAD. IN ADDITION, VARIOUS MANAGEMENT REVIEW EFFORTS PLANNED FOR FY 85 WILL LIKELY PRODUCE ADDITIONAL OPPORTUNITIES FOR REDUCTIONS IN OPERATING COSTS IN THE FUTURE.

IN THE ENTITLEMENT PROGRAM AREA, WHICH REPRESENTS 98.3 PERCENT OF OUR TOTAL AGENCY APPROPRIATIONS, WE ARE REQUESTING THE FOLLOWING PAYMENT TO THE CIVIL SERVICE RETIREMENT AND DISABILITY FUND, AS AUTHORIZED BY P.L. 91-93 (CIVIL SERVICE RETIREMENT AMENDMENT OF 1969).

— $4.4 BILLION TO PROVIDE FOR THE AGGREGATE AMOUNT OF ALL THE ANNUAL 30 YEAR PAYMENTS AUTHORIZED SINCE P.L. 91-93 WAS ENACTED IN 1969 TO FINANCE THAT PORTION OF THE UNFUNDED LIABILITY CREATED BY STATUTES WHICH HAVE RESULTED IN INCREASES IN PAY AND/OR CHANGES IN RETIREMENT BENEFITS SINCE 1969.

- IN ADDITION TO THE $4.4 BILLION WE ARE REQUESTING TO BE APPROPRIATED AS CURRENT BUDGET AUTHORITY, — ANOTHER $12 BILLION IN PERMANENT INDEFINITE AUTHORITY IS ALSO REQUIRED BY CURRENT LAW TO BE TRANSFERRED TO THE RETIREMENT FUND FROM THE TREASURY. THIS AMOUNT REPRESENTS THE INTEREST REQUIRED AT 5 PERCENT ON THE UNFUNDED LIABILITY CALCULATED USING STATIC ASSUMPTIONS. I MENTION THIS AMOUNT, NOT BECAUSE IT MUST BE APPROPRIATED, BUT RATHER TO ALLOW YOU AN OPPORTUNITY TO SEE THE MAGNITUDE OF THE AMOUNTS REQUIRED EACH YEAR TO FINANCE THE CURRENT RETIREMENT SYSTEM. THE $12 BILLION ALSO INCLUDES THE CURRENT ANNUITY DISBURSEMENTS ATTRIBUTABLE TO CREDIT ALLOWED FOR MILITARY SERVICE, AND THE CONTRIBUTION DEFICIENCY CREATED BY PROVIDING INTERIM CIVIL SERVICE RETIREMENT COVERAGE FOR NEW EMPLOYEES NOW UNDER SOCIAL SECURITY: (AUTHORIZED BY P.L. 98-168, THE FEDERAL EMPLOYEES RETIREMENT CONTRIBUTION TEMPORARY ADJUSTMENT ACT OF 1983).

— IN THE FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM AREA, WE ARE REQUESTING $1.3 BILLION TO FUND THE GOVERNMENT'S SHARE OF HEALTH BENEFITS COSTS FOR ANNUITANTS AND SURVIVORS WHO NO LONGER HAVE AN AGENCY TO CONTRIBUTE THE EMPLOYER'S SHARE:

  - OUR FY 85 REQUEST FOR THE GOVERNMENT PAYMENT FOR ANNUITANTS EMPLOYEES HEALTH BENEFITS IS ALMOST 11 PERCENT LESS THAN THE FY 84 APPROPRIATION. THE COST CONTAINMENT FEATURES WE INTRODUCED IN 1982, COUPLED WITH MORE INFORMED PLAN SELECTION BY ANNUITANTS, ARE RESPONSIBLE FOR THESE SAVINGS EVEN THOUGH THE NUMBER OF ANNUITANTS UNDER THE PROGRAM IS EXPECTED TO GROW BY 84,000 OVER THE FY 83 EXPERIENCE.

— TRANSFER AUTHORITY FOR $51 MILLION FROM TRUST FUND ACCOUNTS TO ADMINISTER THE RETIREMENT AND INSURANCE PROGRAMS.

SINCE I HAVE BEEN DIRECTOR OF OPM, WE HAVE MADE SIGNIFICANT ACHIEVEMENTS IN MANAGING THE RETIREMENT AND INSURANCE PROGRAMS. RETIREMENT CLAIMS ON HAND HAVE BEEN SIGNIFICANTLY REDUCED, ANNUITY OVERPAYMENTS HAVE BEEN REDUCED, AND DEBT COLLECTION PROCEDURES STRENGTHENED. ADMINISTRATIVE ACTIONS TAKEN TO DATE, IN BOTH THE RETIREMENT AND HEALTH BENEFIT PROGRAMS, HAVE RESULTED OR WILL RESULT IN SAVINGS OF BILLIONS OF DOLLARS.

AS RECENTLY AS MARCH 8, 1984, I ANNOUNCED A LOWERING OF PREMIUMS IN THE LIFE INSURANCE PROGRAM WHILE, AT THE SAME TIME, ADDING PROVISIONS TO RETIRE THAT PROGRAM'S UNFUNDED LIABILITY.

IN ADDITION TO THESE SAVINGS, OUR FY 85 REQUEST INCLUDES LEGISLATIVE REFORM PROPOSALS FOR THE RETIREMENT SYSTEM WHICH, IF ENACTED, WOULD SAVE $1.2 BILLION IN FY 85 AND $12.9 BILLION THROUGH FY 89. THE PROPOSALS ARE:

— INCREASE EMPLOYER AND EMPLOYEE CONTRIBUTIONS TO 8 PERCENT IN FY 85 AND 9 PERCENT IN FY 86;

— INCREASE POSTAL SERVICE AND D.C. GOVERNMENT EMPLOYER AND EMPLOYEE CONTRIBUTIONS TO 8 PERCENT IN FY 85 AND 9 PERCENT IN FY 86;

- POSTPONE JUNE 84 COLA TO JANUARY 85, MAKE COLA'S PAYABLE EACH JANUARY THEREAFTER;
- ELIMINATE 3.3 PERCENT FLOOR ON FY 85 COLA TO NON-DISABLED EMPLOYEE ANNUITANTS LESS THAN AGE 62;
- LIMIT COLA'S TO 55 PERCENT FOR ANNUITIES IN EXCESS OF THE "BASE LIMITATION AMOUNT" ($10,000 IN FY 85);
- MAKE COLA'S THE LOWER OF THE CPI-W OR THE GS WAGE INCREASE;
- CALCULATE ANNUITIES BASED ON HIGH 5 AVERAGE EARNINGS; AND,
- ELIMINATE MINIMUM ANNUITIES AND ADULT STUDENT BENEFITS.

OUR LEGISLATIVE PROPOSALS FOR THE EMPLOYEES HEALTH BENEFITS PROGRAM, IF ENACTED, WOULD PRODUCE ESTIMATED SAVINGS OF OVER $2.6 BILLION FROM FY 86 THROUGH FY 89. TOGETHER, OUR FY 85 RETIREMENT AND HEALTH LEGISLATIVE PROPOSALS WOULD PRODUCE SAVINGS OF $15.4 BILLION FROM FY 85 THROUGH FY 89.

BEFORE PROCEEDING WITH A MORE DETAILED REVIEW OF OUR FY 85 APPROPRIATIONS REQUEST, I WOULD ALSO LIKE TO EMPHASIZE AT THIS TIME THAT THE ADMINISTRATION STRONGLY SUPPORTS THE RETENTION OF THE GENERAL PROVISION CONTAINED IN H.R. 4139 AND P.L. 98-151 WHICH PROVIDES THAT "NO FUNDS APPROPRIATED BY THIS ACT SHALL BE AVAILABLE FOR AN ABORTION, EXCEPT WHERE THE LIFE OF THE MOTHER WOULD BE ENDANGERED IF THE FETUS WERE CARRIED TO TERM, OR THE ADMINISTRATIVE EXPENSES IN CONNECTION WITH ANY HEALTH PLAN UNDER THE FEDERAL EMPLOYEES HEALTH BENEFIT PROGRAM WHICH PROVIDES ANY BENEFITS OR COVERAGES FOR ABORTIONS, EXCEPT WHERE THE LIFE OF THE MOTHER WOULD BE ENDANGERED IF THE FETUS WERE CARRIED TO TERM, UNDER SUCH NEGOTIATED PLANS AFTER THE LAST DAY OF THE CONTRACTS CURRENTLY IN FORCE". THIS LANGUAGE COMMONLY REFERRED TO AS THE "SMITH AMENDMENT" PROHIBITS THE USE OF FUNDS TO PAY FOR ELECTIVE ABORTIONS UNDER THE FEDERAL EMPLOYEE HEALTH BENEFITS (FEHB) PROGRAM.

SALARIES AND EXPENSES

IN FY 81, WHEN I ASSUMED LEADERSHIP OF THE OPM, S&E FUNDS STOOD AT ALMOST $121 MILLION, WITH AN FY 82 REQUEST FOR $129.5 MILLION PENDING

BEFORE CONGRESS. FOR FY 85, I AM REQUESTING ONLY $111 MILLION, REPRESENTING AN ABSOLUTE REDUCTION IN REQUIRED ANNUAL RESOURCES OF 8.3 PERCENT OVER THE FY 81 LEVEL AND 14.3 PERCENT LESS THAN THE PRIOR ADMINISTRATION'S FY 82 REQUEST. THE ACTUAL REDUCTION IS, OF COURSE, MUCH GREATER WHEN YOU CONSIDER THAT THE $111 MILLION INCLUDES THE ADDED COSTS ASSOCIATED WITH ANNUAL PAY RAISES FOR FEDERAL EMPLOYEES WHICH HAVE AVERAGED ALMOST 4 PERCENT PER YEAR AND THE ADDITIONAL OPERATING COSTS ASSOCIATED WITH GENERAL INFLATION.

IN ADDITION, OUR REQUESTED FULL TIME EQUIVALENT EMPLOYMENT CEILING FOR FY 85 REPRESENTS AN 18.2 PERCENT REDUCTION OVER THE ACTUAL FY 81 FTE UTILIZATION. I AM PARTICULARLY PROUD THAT WE HAVE BEEN ABLE TO ACHIEVE THESE REAL SAVINGS IN OPERATING COSTS WHILE, AT THE SAME TIME, IMPROVING OUR OVERALL PROGRAM EFFECTIVENESS. WE HAVE INVESTED CONSIDERABLE ENERGY AND EFFORT IN IDENTIFYING OPPORTUNITIES TO STREAMLINE OUR OPERATIONS TO MAXIMIZE PRODUCTIVITY AND REDUCE UNNECESSARY AND WASTEFUL PRACTICES.

THROUGH INTERNAL MANAGEMENT INITIATIVES, THE OPM HAS BEEN ABLE TO SAVE ALMOST $38 MILLION BY ELIMINATING DUPLICATION AND OVERLAP AMONG ORGANIZATIONAL STRUCTURES, DEVELOPING MORE EFFICIENT DELIVERY SYSTEMS, ENHANCING PRODUCTIVITY, AND TERMINATING NON-ESSENTIAL PROGRAMS.

ONE OF THE MORE SIGNIFICANT AREAS OF REDUCTION HAS BEEN IN ADMINISTRATIVE PROCESSES IN OUR FIELD STRUCTURE. FROM FY 81 TO THE END OF FY 83, THE OPM HAS REDUCED FULL TIME PERMANENT EMPLOYMENT IN THE REGIONAL OFFICES BY 828 STAFF YEARS, RESULTING IN APPROPRIATED FUND SAVINGS OF OVER $8 MILLION. WE ARE CURRENTLY PURSUING ADDITIONAL MANAGEMENT REVIEWS THAT ARE LIKELY TO YIELD FURTHER SAVINGS IN BOTH REGIONAL AND CENTRAL OFFICE OPERATIONS FOR FY 86 AND BEYOND.

WE HAVE ALSO MADE A CONCERTED EFFORT TO ELIMINATE AND CONSOLIDATE OPM PUBLICATIONS RESULTING IN SAVINGS IN EXCESS OF $2 MILLION DURING MY TENURE.

OUR FY 85 BUDGET REQUEST REFLECTS THE CONTINUATION OF THESE EFFORTS TO ACHIEVE SAVINGS THROUGH REDUCTIONS IN ADMINISTRATIVE SUPPORT FUNCTIONS. THESE SAVINGS WILL BE REALIZED THROUGH ELIMINATION OF INEFFICIENT PRINTING

OPERATIONS AND IMPROVEMENTS IN THE AGENCY'S PAYROLL AND PERSONNEL SYSTEMS IN SUPPORT OF THE PRESIDENT'S MANAGEMENT IMPROVEMENT INITIATIVES. ADDITIONAL SAVINGS WILL ALSO RESULT FROM THE GOVERNMENTWIDE POSITION MANAGEMENT IMPROVEMENT PROJECT TO REDUCE THE POPULATION OF EMPLOYEES IN GRADES 11 THROUGH 15.

THE ACHIEVEMENT OF THESE INTERNAL OPERATING EFFICIENCIES WILL PERMIT US TO DEVOTE ADDITIONAL RESOURCES TO UPGRADING THE CENTRAL PERSONNEL DATA FILE (CPDF) IN FY 85, THE PRIME SOURCE OF FEDERAL CIVILIAN WORKFORCE STATISTICS. THIS SYSTEM SUPPORTS MOST PERSONNEL PROGRAMS WITHIN OPM AND PROVIDES IMPORTANT MANAGEMENT INFORMATION NEEDED BY THE CONGRESS, THE MEDIA, THE EXECUTIVE BRANCH AND THE GENERAL PUBLIC. THE CPDF WAS DESIGNED IN THE EARLY 1970'S AND ALTHOUGH SOME MODIFICATIONS HAVE BEEN MADE, THE BASIC SYSTEM DESIGN AND PROCESSING CONCEPT HAS NOT CHANGED. HENCE, THE SYSTEM'S COMPLEXITY AFFECTS RESPONSIVENESS TO USER REQUESTS, TIMELINESS, AND OCCASIONALLY QUALITY OF DATA, AND REQUIRES EXTENSIVE PROGRAM MAINTENANCE AND OPERATING COSTS. BY RESTRUCTURING FILES AND PROCESSING PROCEDURES AS WELL AS REWRITING AND REDESIGNING PROGRAMS, THE CPDF WILL BE IMPROVED IN THESE AREAS. THE OPM WILL HAVE THE ABILITY TO MOVE EFFECTIVELY TO MEET CHANGING WORKFORCE INFORMATION NEEDS AND SUPPORT MAJOR GOVERNMENTWIDE INITIATIVES, SUCH AS THE REFORM 88 PAYROLL/PERSONNEL INTERFACE PROJECT.

IN ADDITION TO SAVINGS DERIVED FROM MORE EFFICIENT INTERNAL OPERATIONS, THE OPM HAS BEEN A PRINCIPAL LEADER IN THE EFFORT TO PROMOTE ECONOMY, EFFICIENCY AND EFFECTIVENESS IN THE ADMINISTRATION OF PROGRAMS AND IN THE OPERATIONS OF GOVERNMENT BY IMPROVING THE MANAGEMENT AND ADMINISTRATION OF ITS S&E FUNDED GOVERNMENTWIDE PROGRAM RESPONSIBILITIES. THESE INITIATIVES HAVE RESULTED IN SUBSTANTIAL SAVINGS GOVERNMENTWIDE. FOR EXAMPLE, IN THE SPECIAL PAY RATE SETTING PROCESS AND THE ADMINISTRATION OF THE FEDERAL WAGE SETTING PROCESS WE HAVE TAKEN ACTIONS THAT HAVE EITHER SAVED OR REDUCED ADDITIONAL COSTS TO THE GOVERNMENT BY OVER $2.6 BILLION FROM FY 82 THROUGH FY 89. THE GOVERNMENTWIDE POSITION MANAGEMENT IMPROVEMENT PROJECT TO REDUCE THE NUMBER OF POSITIONS IN THE GS 11-15 RANGE WILL PRODUCE AN ESTIMATED $2.3 BILLION IN SAVINGS FROM FY 85 THROUGH FY 89.

OUR REQUEST ALSO INCLUDES A $2,500 LIMITATION ON EXPENSES AVAILABLE FOR OFFICIAL REPRESENTATION AND RECEPTION. THIS MODEST LIMITATION IS REQUESTED FOR FUNCTIONS THAT ARE NECESSARY FOR THE OFFICIAL CONDUCT OF MY OFFICE. WE HAVE INCLUDED A PROVISION FOR THIS LIMITATION IN OUR LEGISLATIVE AGENDA WHICH IS CURRENTLY PENDING WITH THE OFFICE OF MANAGEMENT AND BUDGET.

LIMITATION ON TRANSFERS FROM TRUST FUNDS

THE OPM'S BUDGET REQUEST ALSO INCLUDES A FIFTY MILLION SIX HUNDRED EIGHTY SEVEN THOUSAND DOLLAR ($50,687,000) LIMITATION ON THE AMOUNT OF TRUST FUNDS THAT CAN BE TRANSFERRED TO ADMINISTER THE RETIREMENT AND INSURANCE PROGRAMS.

THE TOTAL AMOUNT REQUESTED THROUGH THIS TRANSFER AUTHORITY WILL SUPPORT ACTIVITIES WHICH I VIEW AS AMONG THE MOST CRITICAL PERFORMED BY OPM. WE HAVE NO HIGHER RESPONSIBILITY THAN ASSURING THAT THE BENEFICIARIES OF OUR RETIREMENT, HEALTH AND LIFE INSURANCE PROGRAMS RECEIVE PROMPT AND EFFICIENT SERVICE AND THAT THE PROGRAMS THEMSELVES ARE ADMINISTERED WITH THE PRINCIPLES OF FISCAL RESPONSIBILITY FIRMLY IN PLACE.

WHEN I ASSUMED RESPONSIBILITY FOR THESE IMPORTANT PROGRAMS IN 1981, THESE FUNDAMENTAL MISSIONS WERE NOT BEING MET. THERE WAS A BACKLOG OF SOME 100,000 RETIREMENT CLAIMS AND OPM TOOK AN AVERAGE OF 106 DAYS TO PROCESS THE CLAIMS OF RETIRING EMPLOYEES. TODAY, THE AVERAGE PROCESSING TIME IS LESS THAN 40 DAYS AND FULLY COMPLETE CASES ARE PROCESSED IN LESS THAN 35 DAYS. WITH THESE IMPROVEMENTS, WE NO LONGER SPEAK OF "BACKLOGS" BUT NORMAL LEVELS OF WORK IN PROGRESS. OUR CONTINUED INVESTMENT IN AUTOMATION WILL ASSURE THAT THESE IMPROVED SERVICE LEVELS ARE MAINTAINED AND FURTHER EXPANDED.

THE PROGRESS IN SERVICE LEVELS IS SURPASSED ONLY BY THAT IN THE AREA OF FISCAL RESPONSIBILITY AND INTEGRITY. SHORTLY AFTER ASSUMING OFFICE, I DISCOVERED A POTENTIAL BUDGETARY SHORTFALL OF $440 MILLION IN THE FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM. MY SUBSEQUENT ACTIONS ARE WELL KNOWN. BY PLACING COST CONTAINMENT FEATURES IN THE HEALTH BENEFITS PROGRAM, THE NEED FOR SUPPLEMENTAL RESOURCES WAS MINIMIZED AND THE APPLICATION OF SOUND

FINANCIAL PRINCIPLES SINCE THAT TIME HAS RESTORED THE FINANCIAL INTEGRITY OF THE HEALTH BENEFITS PROGRAM. INDEED, THE APPROPRIATION I AM REQUESTING TODAY FOR THIS PROGRAM, ONE BILLION THREE HUNDRED AND FORTY ONE MILLION FIVE HUNDRED AND FIFTY THREE THOUSAND DOLLARS ($1,341,553,000), REFLECTS A NET DECREASE OF ALMOST $165 MILLION FROM FY 84. THIS REDUCTION IS A PARTIAL REFLECTION OF THE $1.9 BILLION IN HEALTH BENEFITS COSTS WHICH HAVE BEEN AVOIDED SINCE 1981 WITH THE INTRODUCTION OF COST CONTAINMENT FEATURES AND MORE INFORMED PLAN SELECTION BY ENROLLEES.

THE PRINCIPLES OF FISCAL RESPONSIBILITY HAVE BEEN EXTENDED TO THE OTHER BENEFITS PROGRAMS AS WELL. ON MARCH 8, 1984, I ANNOUNCED A LOWERING OF PREMIUMS IN THE LIFE INSURANCE PROGRAM WHILE, AT THE SAME TIME, ADDING PROVISIONS TO RETIRE THAT PROGRAM'S UNFUNDED LIABILITY. THE APPLICATION OF EFFECTIVE CASH MANAGEMENT PRACTICES IN THE LIFE INSURANCE PROGRAM HAVE ALSO AVOIDED OVER $47 MILLION IN GOVERNMENT OUTLAYS SINCE 1981.

IN THE RETIREMENT PROGRAM, MORE EFFECTIVE MANAGEMENT OF THE EARLY OUT AND DISABILITY RETIREMENT PROVISIONS PRODUCED SAVINGS IN EXCESS OF $400 MILLION IN 1982 AND 1983, AND IS PROJECTED TO SAVE OVER $4 BILLION BY FY 89. AGGRESSIVE PURSUIT OF THE ADMINISTRATION'S REFORM 88 OBJECTIVES HAS IDENTIFIED OVER $10 MILLION IN RETIREMENT OVERPAYMENTS THROUGH AMBITIOUS MATCHING PROGRAMS WITH THE SOCIAL SECURITY ADMINISTRATION, THE DEPARTMENTS OF DEFENSE AND LABOR, AND THE VETERANS ADMINISTRATION. THESE EFFORTS ARE BEING EXPANDED AND HAVE ELIMINATED OVERPAYMENTS IN THE OTHER AGENCIES AS WELL. I ALSO PLACE A PREMIUM ON EFFECTIVE DEBT COLLECTION AND AN IMPROVED DEBT SYSTEM IS NOW BEING IMPLEMENTED WHICH IS EXPECTED TO PRODUCE ANNUAL SAVINGS OF $6 MILLION.

SINCE I HAVE BEEN DIRECTOR OF OPM, WE HAVE BEEN ABLE TO IMPLEMENT A NUMBER OF ADMINISTRATIVE PRACTICES IN THE RETIREMENT SYSTEM THAT HAVE PRODUCED SAVINGS TO THE GOVERNMENT TOTALLING OVER $5.2 BILLION BEGINNING IN FY 82 THROUGH FY 89. IN ADDITION, CONGRESS HAS MADE CERTAIN LEGISLATIVE CHANGES THAT HAVE PRODUCED SAVINGS OF OVER $4.2 BILLION DURING THE SAME TIME PERIOD. TOGETHER THESE ADMINISTRATIVE AND LEGISLATIVE REFORMS TOTAL OVER $9.4 BILLION.

THESE REFORMS HAVE SLOWED THE RAPID RATE OF GROWTH IN THE RETIREMENT SYSTEM'S STATUTORY UNFUNDED LIABILITY. FROM 1977 THROUGH 1982, THE UNFUNDED LIABILITY INCREASED MORE THAN 50 PERCENT. AS OF THE END OF FY 82, WE ESTIMATE THAT THE RETIREMENT FUND'S UNFUNDED LIABILITY AMOUNTS TO OVER ONE-HALF TRILLION DOLLARS, A TRULY STAGGERING OBLIGATION. IN OUR FY 85 BUDGET REQUEST, 60 PERCENT OF THE REQUESTED PAYMENT TO THE FUND IS TO COVER INTEREST COSTS ON THIS UNFUNDED LIABILITY.

WHILE SIGNIFICANT, THE PROGRESS ACHIEVED IN THE RETIREMENT SYSTEM IS A BEGINNING. THE SYSTEM'S BENEFITS REMAIN INORDINATELY GENEROUS COMPARED TO THOSE FOUND IN THE PRIVATE SECTOR OR TO THOSE NECESSARY TO RETAIN AN EFFECTIVE WORKFORCE. A HUGE UNFUNDED LIABILITY THREATENS FUTURE TAXPAYERS, AND PRESENT RATES OF EMPLOYEE AND AGENCY CONTRIBUTIONS ARE INSUFFICIENT TO FUND CURRENT, MUCH LESS FUTURE, BENEFIT DISBURSEMENTS. THE ADMINISTRATION IS THEREFORE PROPOSING LEGISLATION TO REFORM THE CIVIL SERVICE RETIREMENT SYSTEM TO:

— INCREASE EMPLOYER AND EMPLOYEE CONTRIBUTIONS TO 8 PERCENT IN FY 85 AND 9 PERCENT IN FY 86;

— INCREASE POSTAL SERVICE AND D.C. GOVERNMENT EMPLOYER AND EMPLOYEE CONTRIBUTIONS TO 8 PERCENT IN FY 85 AND 9 PERCENT IN FY 86;

— POSTPONE JUNE 84 COLA TO JANUARY 85, AND MAKE FUTURE COLA'S PAYABLE EACH JANUARY THEREAFTER;

— ELIMINATE 3.3 PERCENT FLOOR ON FY 85 COLA TO NON-DISABLED EMPLOYEE ANNUITANTS LESS THAN AGE 62;

— LIMIT COLA'S TO 55 PERCENT FOR ANNUITIES IN EXCESS OF THE "BASE LIMITATION AMOUNT" ($10,000 IN FY 85)

— MAKE COLA'S THE LOWER OF THE CPI-W OR THE GS WAGE INCREASE

— CALCULATE ANNUITIES BASED ON HIGH 5 AVERAGE EARNINGS; AND,

— ELIMINATE MINIMUM ANNUITIES AND ADULT STUDENT BENEFITS.

THESE CHANGES WOULD BEGIN TO REDUCE THE SUBSIDY FROM THE TREASURY AND MOVE THE FEDERAL CIVIL SERVICE RETIREMENT SYSTEM TOWARD A

POSITION WHERE ITS COSTS ARE SHARED MORE EVENLY BETWEEN THE GOVERNMENT AND FEDERAL EMPLOYEES. THESE PROPOSED REFORMS WOULD PRODUCE SAVINGS TO THE RETIREMENT FUND OF $1.2 BILLION IN FY 85 AND $12.9 BILLION THROUGH THE END OF FY 89. IN ADDITION, WE ESTIMATE THAT ENACTMENT OF THESE PROPOSALS WOULD REDUCE THE AMOUNT OF THE PAYMENT THE GOVERNMENT WOULD OTHERWISE BE REQUIRED TO MAKE TO THE RETIREMENT FUND BY APPROXIMATELY $400 MILLION IN FY 85 ALONE.

PAYMENT TO THE CIVIL SERVICE RETIREMENT AND DISABILITY FUND

THE PAYMENT TO THE CIVIL SERVICE RETIREMENT AND DISABILITY FUND CONSISTS OF TWO SEPARATE ITEMS AND DOES NOT INCLUDE APPROXIMATELY $4.5 BILLION TO BE PAID BY AGENCIES IN FY 85 FOR EMPLOYEE RETIREMENT COSTS. THE FOUR BILLION THREE HUNDRED SIXTY SIX MILLION EIGHT HUNDRED SIXTY EIGHT THOUSAND DOLLARS ($4,366,868,000) REQUESTED IN CURRENT AUTHORITY REPRESENTS THE TOTAL APPROPRIATION, EQUALLING THE SUM OF ALL THE ANNUAL 30 YEAR PAYMENTS AUTHORIZED SINCE P.L. 91-93 WAS ENACTED IN 1969. THIS LAW, THE CIVIL SERVICE RETIREMENT AMENDMENTS OF 1969, AUTHORIZIES 30 ANNUAL APPROPRIATIONS TO FINANCE THE UNFUNDED LIABILITY CREATED BY STATUTES WHICH RESULT IN INCREASES IN PAY AND/OR CHANGES IN THE RETIREMENT SYSTEM.

THE SECOND ITEM REPRESENTS ELEVEN BILLION NINE HUNDRED EIGHTY SIX MILLION SIX HUNDRED EIGHTY THREE THOUSAND DOLLARS ($11,986,683,000) TO BE PROVIDED UNDER PERMANENT INDEFINITE AUTHORITY. THIS AMOUNT IS AUTHORIZED BY P.L. 91-93 WHICH PROVIDES FOR A TRANSFER FROM THE TREASURY ON AN ANNUAL BASIS FOR INTEREST ON THE STATUTORY UNFUNDED LIABILITY AND CURRENT ANNUITY DISBURSEMENTS ATTRIBUTABLE TO CREDIT ALLOWED FOR MILITARY SERVICE, AND BY P.L. 98-168, THE FEDERAL EMPLOYEES RETIREMENT CONTRIBUTION TEMPORARY ADJUSTMENT ACT OF 1983, WHICH PROVIDES FUNDING OF THE CONTRIBUTION DEFICIENCY CREATED BY PROVIDING INTERIM CIVIL SERVICE RETIREMENT COVERAGE FOR NEW EMPLOYEES COVERED BY SOCIAL SECURITY.

THE ESTIMATED $16.4 BILLION REQUIRED FOR THE PAYMENT TO THE CIVIL SERVICE RETIREMENT AND DISABILITY FUND REPRESENTS OVER 90 PERCENT OF OUR TOTAL FUNDS PROGRAMMED FOR FY 85.

GOVERNMENT PAYMENT FOR ANNUITANTS, EMPLOYEE HEALTH BENEFITS

THE OPM IS REQUESTING AN APPROPRIATION OF ONE BILLION THREE HUNDRED FORTY ONE MILLION FIVE HUNDRED FIFTY THREE THOUSAND DOLLARS, ($1,341,553,000) A NET DECREASE OF ONE HUNDRED SIXTY FOUR MILLION SEVEN HUNDRED EIGHTY SIX THOUSAND DOLLARS ($164,786,000) FROM FY 84, TO FUND THE GOVERNMENT'S SHARE OF HEALTH BENEFIT COSTS FOR ANNUITANTS AND SURVIVORS WHO NO LONGER HAVE AN AGENCY TO CONTRIBUTE THE EMPLOYERS SHARE. THIS APPROPRIATION INCLUDES THE GOVERNMENT CONTRIBUTION FOR ENROLLEES IN THE FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM AND THE RETIRED EMPLOYEES HEALTH BENEFITS PROGRAM. DESPITE THE GROWING NUMBER OF ANNUITANTS WHO BENEFIT FROM THIS, THE APPROPRIATION HAS BEEN REDUCED, REFLECTING THE CONTINUED SUCCESS OF COST CONTAINMENT FEATURES INTRODUCED IN 1982. SINCE THEIR INTRODUCTION, THESE FEATURES, TOGETHER WITH MORE INFORMED PLAN SELECTION BY ENROLLEES, HAVE PRODUCED TOTAL SAVINGS OF $1.9 BILLION.

THAT CONCLUDES MY OPENING REMARKS AND I WOULD BE GLAD TO ANSWER ANY QUESTIONS YOU MAY HAVE ON THESE OR RELATED MATTERS.

FISCAL YEAR 1984 SUPPLEMENTAL APPROPRIATION REQUEST

I WOULD LIKE TO INTRODUCE MY COLLEAGUES: MR. WILLIAM HUNT, ASSOCIATE DIRECTOR, ADMINISTRATION GROUP, MR. JAMES MORRISON, Jr., ASSOCIATE DIRECTOR FOR COMPENSATION GROUP, MS. JEAN BARBER, ASSISTANT DIRECTOR FOR FINANCIAL CONTROL AND MANAGEMENT OF OUR COMPENSATION GROUP, MR. SIDNEY CONLEY, ACTING ASSISTANT DIRECTOR FOR FINANCE AND BUDGET, AND MR. JAMES LOISELLE, ACTING BUDGET OFFICER.

WE ARE HERE TO DISCUSS THREE REQUESTS: A SUPPLEMENTAL APPROPRIATION OF APPROXIMATELY $203 MILLION FOR THE PAYMENT TO THE CIVIL SERVICE RETIREMENT AND DISABILITY FUND TO COVER THE UNFUNDED LIABILITY CREATED BY INCREASED PAY RATES UNDER E.O. 12456 AND P.L. 98-151, AND THE ADDITION OF APPROPRIATION LANGUAGE FOR OPM'S SALARIES AND EXPENSES ACCOUNT AND REVOLVING FUND. WITH YOUR PERMISSION, I WILL BRIEFLY OUTLINE OUR REQUESTS; AFTER WHICH WE WILL BE PLEASED TO ANSWER ANY QUESTIONS YOU MAY HAVE.

FIRST, WE REQUEST $203,173,000 IN GOVERNMENT CONTRIBUTIONS TO THE CIVIL SERVICE RETIREMENT AND DISABILITY FUND. THIS FIGURE REPRESENTS THE UNFUNDED LIABILITY CREATED BY THE RECENT PAY INCREASES AMORTIZED IN ANNUAL INSTALLMENTS OVER A 30 YEAR PERIOD AS REQUIRED BY PUBLIC LAW 91-93.

SECOND, APPROPRIATION LANGUAGE HAS BEEN SUBMITTED WHICH WOULD EXEMPT EXPENSES FOR TRAVEL IN SUPPORT OF THE VOTING RIGHTS ACT OF 1965, FROM THE LIMITATION CONTAINED IN THE HOUSE PASSED BILL (H.R. 4139) AND CARRIED FORWARD BY PUBLIC LAW 98-151.

THIRD, APPROPRIATION LANGUAGE HAS BEEN SUBMITTED TO ALLOW UP TO $12,000 IN ENTERTAINMENT EXPENSES FOR THE PRESIDENT'S COMMISSION ON EXECUTIVE EXCHANGE. AUTHORITY TO EXPEND FUNDS FOR THIS PURPOSE IS BASED ON ENROLLED BILL (H.R. 4336), "CIVIL SERVICE MISCELLANEOUS AMENDMENTS ACT OF 1983", WHICH WOULD CHANGE APPROPRIATE SECTIONS OF TITLE 5, U.S.C. TO GRANT AUTHORITY TO THE OPM TO EXPEND SUCH AMOUNTS AS MAY BE SPECIFIED IN APPROPRIATIONS ACTS. THE FUNDS TO BE COLLECTED AND EXPENDED FOR THESE PURPOSES ARE CONTRIBUTED FROM THE PRIVATE SECTOR, THE COMPANIES AND BUSINESSES THAT PROVIDE THE EXCHANGE EXECUTIVES. THE COMMISSION WILL USE $12,000 OF THE DONATED FUNDS FROM THE PRIVATE SECTOR FOR OFFICIAL ENTERTAINMENT EXPENSES. A SIMILAR BILL, P.L. 97-412, WAS ENACTED BUT EXPIRED DECEMBER 31, 1983.

THIS CONCLUDES MY OPENING REMARKS. IF YOU HAVE ANY QUESTIONS AT THIS TIME, MY COLLEAGUES AND I WILL BE HAPPY TO ANSWER THEM.

EMPLOYEES HEALTH BENEFITS

Senator ABDNOR. Thank you. You made a beautiful improvement and savings.

Under your procedure, Government payments for annuitant, employees health benefits is almost 11 percent less than the 1984 appropriation.

Mr. DEVINE. Yes, sir. We are very proud of that.

You may remember, last year, or the year before, there was considerable question raised as to the benefits of these administrative changes that we undertook.

I think this year, in this appropriation request, you see the results of those decisions, some of which were difficult at the time, but clearly, the Government, the employees, and the annuitants are much better off as a result of that. The total savings to employees and annuitants in the 3 years past is about $600 million. In savings to the taxpayers, about $1.3 billion, so we are very proud of that.

Senator ABDNOR. Well, that is excellent. I commend you for the job that you are doing. I know it is reflected in your overall budget of what we see today. I am sure that is only because of the fine management.

Mr. DEVINE. Thank you, sir.

ABSORPTION OF PAY RAISE SUPPLEMENTAL

Senator ABDNOR. The Office of Personnel Management is absorbing its supplemental, and it is very impressive. To what do you attribute the savings?

Mr. DEVINE. Well, the main thing, as I mentioned, we have made many management improvements that enable us to make those savings. We have reduced the number of people. We did not need as many people to perform the mission given to us by Congress, together with our management savings, we have been able to pass that along to the taxpayers.

Senator ABDNOR. Well, again I commend you for it.

Mr. DEVINE. Thank you, sir.

PROGRAM EFFICIENCIES

Senator ABDNOR. Your other programs account has continued to decrease in the past few years, and what makes up this account? What do you attribute the decrease to? Other programs.

Mr. DEVINE. Well, we only ended one program, which took place in the continuing resolution passed in 1981, which was the intergovernmental personnel assistance grant program, and this committee supported the recommendation to eliminate it. Otherwise, the changes have been made in program efficiencies.

As I mentioned, we had a very large backlog in our retirement claims when we came in, we looked closely at that. Mr. Morrison and his team did an excellent job of getting us on time, and in fact, we are processing claims about twice as fast as we did before.

I have said several times that I am not sure that these items were looked at very closely before the Reagan administration came in. With a new view of how Government expenses should be looked at, and we have tried to look hard at everything we have done, and have tried to get all efficiencies out of every dollar that the taxpayers and the Congress have given us, and that is what I would attribute the savings to.

VOTING RIGHTS

Senator ABDNOR. Fine. The OPM is charged with administering the Voting Rights Act of 1965. Within a Presidential election year, that has quite an impact, an unusual impact. How are you coping with it?

Mr. DEVINE. The Voting Rights Act has this very unusual provision that employees of the Office of Personnel Management, or other employees of the Government that OPM selects, would serve in a program that is essentially a program of the Department of Justice

The Department of Justice requests a number of people they need to act as observers of elections under the Voting Rights Act, and it is [illegible] responsibility simply to respond to those requests.

As you could imagine, since another agency is responsible for assigning personnel essentially under our control, it makes planning very difficult for us. Perhaps it should have been given to the Department of Justice, in terms of planning. But the intent of those who supported this legislation originally, was to have these two functions separated, to give a guarantee of an objective oversight process. I think that has some benefits, but it does make the planning difficult.

The Department of Justice, of course, is responding to allegations of improper practices, and it finds it very difficult also to plan ahead, and it is this joint and different nature of this program that leads us to ask for an exception under the travel restriction. However, we are not asking for any more money. We have the funds available, but we need an exception to the travel restriction, or we would literally have to stop many of our recruiting, examining, and evaluation functions.

Senator ABDNOR. If you could come up with any ways to do this, let us know. We want to work with you on this. I know you have some difficult restrictions to try to work with there.

I do not know quite how to do it, maybe staff up here——

Mr. DEVINE. If we can, we will be in discussion with your staff on this. But I think it is just a simple matter of an exclusion for voting rights travel that would allow us to fulfill our responsibilities as they are given to us by the Department of Justice.

Senator ABDNOR. Well, have your people keep working. Mr. Parkinson will see what we can do here.

PRESIDENT'S COMMISSION ON EXECUTIVE EXCHANGE

Language has been requested to allow expenditure of funds for the expenses of the President's Commission on Executive Exchange.

Now, we do not have any problem with the request for it, for its private funds, and you are solely seeking authority.

Do we not have legislation pending which would take this out of the yearly cycle? Do you know where this stands? I have heard this kicked around. I just wanted to figure out how.

Mr. HUNT. Mr. Chairman, Public Law 98-224, Civil Service Miscellaneous Amendments of 1983, was recently signed by the President on March 1, which gave permanent authority to the commission for use of these funds. What we are doing now is simply asking for, in the supplemental, authority to use up to $12,000 for entertainment purposes for this year. So Congress has already acted on it substantively, but in order to expend the money in this fiscal year we need to ask for the authority.

Senator ABDNOR. Fine.

PAY AND RETIREMENT STUDIES

The Washington Post—which I do not quote very often—has indicated recently that OPM has hired two outside consultant firms to study revamping pay and retirement programs.

What are you looking for, and what will the study entail, if that is true? I assume it is.

Mr. DEVINE. Yes, it is true. We are looking at some changes in the Federal retirement system.

As you will recall, as part of the amendments to the Social Security Act, one of the provisions was to place new Federal employees, as of January 1 of this year, under social security. This necessitates a change in the civil service retirement system so that we can provide supplemental retirement benefits for these new employees.

At the same time, many people that have looked at our retirement system, from the outside, including the Grace Commission, and many commissions in the past, have suggested that we should take a close look at the present retirement system.

This administration has suggested proposals for change in the retirement system. Several Members of Congress, as well as the Grace Commission, have also made several specific proposals.

What we propose to do is to have all of these proposals evaluated by outside firms, to validate the numbers, so at least we are all playing with the same numbers when we go forward with various proposals for change.

In the area of pay, in December 1982, OPM issued a report on different approaches to pay, noting broad dissatisfaction from the outside, as well as within Government. It was also mentioned by the Grace Commission that our pay system has some serious flaws.

So we are investigating a contract with the outside to look at the proposals that we have made, to validate them again in terms of their technical adequacy, so again we can have a firm factual basis for any changes that may be proposed in the future.

Senator ABDNOR. So you pretty well instructed the consultant firms what you really wanted them to study?

Mr. DEVINE. Yes; we have come up with our estimates as to what the costs and benefits would be for making different proposals. We think it is important to validate the basic numbers so at least we can agree on what the numbers are, and that will then at least focus debate somewhat as we look into these matters.

Senator ABDNOR. Could I ask you the studies' costs, do you know?

Mr. DEVINE. Two hundred thousand dollars for retirement, and we have an estimate—actually, we are still in the process about that, I would prefer not to mention that, if it is all right. We are still negotiating the pay study.

Senator ABDNOR. Will the studies go on for years more?

Mr. DEVINE. No; we have put very close deadlines on these, so that we have them available, we would hope, by the end of the summer.

Senator ABDNOR. Good.

ADVISORY COMMITTEE ON FEDERAL PAY

In the hearing before this committee on March 5, the Advisory Committee on Federal Pay disputed the data that OPM used to determine the pay rate increase with regard to the comparability gap. And their testimony said the result of OPM's proposal is to the lowest possible point.

Now, could you respond to that?

Mr. DEVINE. Yes; I disagree profoundly with the Advisory Committee's interpretation. I think that they have not taken a fresh look at the proposal, but are simply assuming that the past practice, which they themselves have criticized, I would mention, in the past, is sound.

I think that there are very serious problems with the pay survey that we use right now, and I think the credibility of the whole process is in question. The survey comes out with a result that Federal employees are supposedly paid 20 percent below comparable levels of work in the private sector. I do not know anyone that believes that, and certainly, implicitly Congress does not believe it, because they have not overridden the President's alternative plan, where he has come out with raises much less than that amount, and in fact, Congress itself has legislated different pay levels.

I think we have a very serious morale problem as a result of that, because Federal employees can look to a survey done by the Government of the United States and believe that they, in fact, are being paid that much behind their coworkers in the private sector. I do not believe that is true, and I think that the reporting of that inaccuracy creates dissatisfaction, where a new and more soundly based study would get rid of that problem, and allow us to come up with a reliable means of setting pay.

It is, I think, a serious problem, and one that deserves the attention of both the executive and legislative branches.

Senator ABDNOR. I could see it being a morale problem. They talk about a disparity of about 21½ percent.

Mr. DEVINE. Yes, sir.

Senator ABDNOR. And I think you show four. What do they do, go out and get the highest possible figures?

Mr. DEVINE. Well, I have a theory on that which I cannot fully sustain. That in the process of negotiation, or discussion between the union representatives and the executive branch, the executive branch gets the alternative pay line that they want through the President's alternative pay plan, and the unions get what they want by having a survey that suggests this is not a good place to work, unless you have a union fighting to get somewhat more benefits for you.

I think that that is not a good way to run a pay survey, and I would like to make some changes in that.

Senator ABDNOR. How long have they been in existence?

Mr. DEVINE. The Advisory Committee?

Senator ABDNOR. Yes.

Mr. DEVINE. Since 1971, it was part of the 1971 act. I think the Advisory Committee, and I am not blaming them for this process, because the executive branch, through the pay agent, is the one that sits down and discusses it with the union, so it is as much the executive branch problem in the form of my position, as anyone else's.

Senator ABDNOR. Well, it does present a problem. I can certainly see that.

REDUCTION IN NUMBER OF EMPLOYEES IN GRADES GS-11 TO GS-15

We are somewhat concerned about that GS-11 to GS-15 project, against reductions of personnel. But we have some agencies in this bill, Customs, Secret Service, IRS, where we are really concentrating on increasing this. I think that is true.

Mr. DEVINE. Yes; a little background.

The Grace Commission, when they did their study of the Federal Government, and although we have been doing some independent studies, as has the Office of Management and Budget, the Grace Commission came up with the estimate that we have about 50 percent more people in the GS-11 to GS-15 range than the private sector does.

Now, there are some good reasons why Government would have more people in that area, in the staff area especially, as opposed to line, because there are more redundancy controls in Government, so as to make sure abuses do not take place in the system.

So I think, first of all, the fact that the Federal Government has more in this area by itself, it is not necessarily a problem. But I think it is that it is so much larger, 50 percent.

Under the impetus of the Grace Commission, we proposed to the Office of Management and Budget and proposed to the President, that we try to attack some of that problem by reducing the number of GS-11's to GS-15's by 2 percent a year over the next 4 years, for a total of about 8 percent.

However, we specifically rejected the idea of personnel ceiling controls, which Congress had used in the past, for the Department of Defense.

What we decided instead was to set up a very flexible program, in which agencies could make arguments to the Office of Personnel Management, and that we and the agencies would consult, or provide information to the Office of Management and Budget, and that they would allow exceptions through the budget process.

The budget that the Congress is considering already has the effects of this program in it for this year's budget. So therefore, where you have cases of agencies increasing in that grade range, the Office of Management and Budget and the agencies, presumably, agreed that it would be appropriate to request from Congress more individuals in that category.

We, as I mentioned, specifically rejected the idea of rigid personnel management controls, but rather to have budget controls through the budget process, so Congress would be aware of these changes, and to allow agencies more flexibility in how they would assign it, rather than a rigid position management system.

So I think to directly answer your question, that the budget requests that you have before you from the departments, whether Treasury or otherwise, already take into account the effects of the first year of our program.

Senator ABDNOR. That is good. I think you have to have that flexibility. It is like saying you are going to take a 10-percent cut on everyone's budget, right across the board. Some people can take 10 percent a lot easier than some others. I mean that could happen with personnel too, I suppose.

Mr. DEVINE. Yes, sir. Even there, we are not talking about reducing the number of positions in the Government, but trying to have agencies look at their position management structure, and their classification, and make a decision that maybe that same position could be filled at a lower level. I think it is useful for agencies to look at that, at least, and make a decision whether they should or should not make the change.

Senator ABDNOR. Fine.

Well, that pretty well covers our questions. If we have any others, we will put them in writing.

Senator DeConcini is not here today. We thank you very much, and we appreciate your willingness to come a little early to help us speed this up.

Mr. DEVINE. Thank you very much. It was a pleasure to be here, and we will be happy to answer any questions that you may have in writing.

Senator ABDNOR. Fine. I know you will.

SUBCOMMITTEE RECESS

With that, we thank all our witnesses for appearing before the subcommittee today, and if we have no further business, the subcommittee will stand in recess until tomorrow afternoon, and we will continue our hearings on the 1985 budget submission, and we will be receiving testimony from a number of public witnesses.

So we stand in recess until 2 p.m.

[Whereupon, at 3:30 p.m., Monday, March 19, the subcommittee was recessed, to reconvene at 2 p.m., Tuesday, March 20.]

TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 1985

TUESDAY, MARCH 20, 1984

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 2:10 p.m., in room SD-124, Dirksen Senate Office Building, Hon. James Abdnor (chairman) presiding.

Present: Senator Abdnor.

NONDEPARTMENTAL WITNESSES

AIR TRANSPORT ASSOCIATION OF AMERICA

STATEMENT OF JAMES R. GORSON, DIRECTOR OF FACILITATION

Senator ABDNOR. The subcommittee will come to order.

Today, the subcommittee continues its fiscal year 1985 budget oversight hearings with testimony from public witnesses. We have a number of witnesses who will testify on a number of different subjects and topics, including subjects dealing with agencies over which this subcommittee has jurisdiction.

Because of the number of witnesses, and we do have quite a number, and the time restraints we face, I reluctantly request that each of you limit your presentations to 10 minutes each. Even then, that will not allow hardly any time for any questions.

But I guarantee that your entire statement will be made part of the record, so we would just ask you to summarize and cover the important points that you would care to make. I know you have come a long way in many cases, but if we are going to get everyone in, we are going to have to have some kind of a limitation.

So with that, we will start with Mr. James Gorson, who is from the Air Transport Association of America. Mr. Gorson, we welcome you to the committee.

Mr. GORSON. Thank you, Mr. Chairman. As you mentioned, in the interests of time, I can simply summarize my comments.

My name is James R. Gorson. I am director of facilitation of the Air Transport Association, which represents most of the scheduled airlines of the United States. We do appreciate this opportunity to appear be-

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fore the subcommitteee to discuss the fiscal year 1985 appropriations for the U.S. Customs Service.

Our statement focuses on four areas of concern. First and foremost, we wish to thank the chairman and the subcommittee for your leadership in connection with the recent decision to consolidate inspection agency primary responsibilities at all U.S. gateway airports and at the nine preclearance airports abroad.

Now that the Customs Service has been designated as the agency to assume the primary inspection responsibility at these airports, we urge that a one-stop passenger inspection program be adopted promptly in an orderly fashion.

Attached to our statement is a list of airports where a one-stop consolidated inspection procedure could be implemented and where Customs should be permitted to provide the primary inspection responsibilities.

At each and every airport terminal where one-stop inspection is authorized to go forward, the Customs red/green door, dual channel passenger exiting processing procedure should be simultaneously instituted.

Improved efficiencies in Customs cargo processing must also continue. We are pleased to note in this regard that plans are underway by the port authorities at Kennedy and Miami Airports to computerize the processing of international air cargo.

While the Customs Service is passively participating in these programs, that agency has not allocated funds to support it even though Customs will be a major beneficiary. We urge this committee to appropriate sufficient funding commensurate to the share of benefits which Customs will derive and to request Customs to assume a more active leadership role.

An issue of concern to United States-Canadian transborder airlines and to our friends in the Canadian Government is the refusal of the U.S. Customs Service to allow a test of a concept called downstream duty-free, whereby a duty-free sales facility occupies an area beyond the Customs baggage inspection counters.

The government of Canada has gone to great lengths to design a plan which complies with all of the enforcement requirements for U.S. Customs. The test will be conducted at no cost to U.S. Customs and can be tried at a preclearance location in Canada chosen by U.S. Customs.

Since revenues derived from the sales of duty-free stores help to pay for Customs inspection facilities at airports, we again urge this committee to request Customs to allow such a test, at the end of which U.S. Customs would make the final determination as to the feasibility of the downstream duty-free arrangement.

We are dismayed, Mr. Chairman, to just learn that the successful use of the machine readable passport at Chicago's O'Hare Airport will be discontinued by Customs due to a lack of funding. We urge the committee to direct Customs to continue this very modest program which both facilitates passenger flow and enhances Customs' enforcement capabilities. This system should be expanded to selected other airports.

In conclusion, Mr. Chairman, we urge the committee to provide appropriations for adequate Customs inspector personnel at preclearance and U.S. gateway airports by restoring $9.3 million in Inspection Service budget cuts proposed by the administration; to authorize funds to cover Customs' full participation and leadership in the compatible computerized international air cargo program into Miami and Kennedy Airports; to direct Customs to withdraw its opposition to a cost-free testing of a downstream duty-free arrangement at a preclearance airport in Canada; and to direct Customs to proceed, as the agency with primary responsibility, with a consolidated one-stop inspection procedure at selected airports. We would suggest that this could be tried at Miami, New Orleans, Los Angeles, and the Trans World Airlines, the Eastern Airlines satellite terminal and Northwest satellite terminal at Kennedy International Airport.

Finally, it is worth noting here that U.S. airlines, as good corporate citizens, endorse and support U.S. Customs law enforcement measures. In order for enforcement to be effective, however, Mr. Chairman, Customs must have sufficient resources, including an adequate number of inspectors. The administration's proposed cut of 415 Customs inspectors will do exactly the opposite and could impact disastrously both on the Customs security and enforcement missions as well as on the facilitation of international travel and trade.

PREPARED STATEMENT

That concludes my comments, Mr. Chairman. I will be glad to respond to questions should there be any.

[The statement follows:]

STATEMENT OF JAMES R. GORSON

My name is James R. Gorson. I am Director - Facilitation of the Air Transport Association of America, which represents most of the scheduled airlines of the United States. Seventeen of our member airlines provide regularly scheduled air service between the United States and more than 70 countries.

We appreciate the opportunity to appear before the Subcommittee to discuss the FY 1985 appropriations for the U.S. Customs Service. Our statement will be brief, focusing on four areas of concern.

First and foremost, we wish to thank the Chairman and the Subcommittee for their leadership in connection with the recent decision to consolidate inspection agency primary responsibilities at all U.S. gateway airports and at the nine preclearance airports abroad. Now that the Customs Service has been designated as the agency to assume the primary inspection responsibility at these airports, we urge that a one-stop passenger inspection program be adopted promptly in an orderly fashion.

Specifically, we ask the support of the Committee to effect a Customs consolidated one-stop inspection at New Orleans prior to the May 12 commencement of the Louisiana World Exposition. Also, Miami International Airport should be given an immediate opportunity to provide a one-stop inspection procedure at this second busiest international U.S. air passenger terminal. And, since the Tampa airport terminal inspection facility readily lends itself to a one-stop configuration, the procedure should be allowed to start there now, with Customs assuming primary inspection responsibilities. A consolidation one-stop inspection should also be tested at one or more of the satellite terminals at Kennedy airport, and Transworld Airlines has volunteered the use of its facility to for such a testing. Finally, in order to cope with the international passenger traffic saturation at New York's Kennedy international arrival building, Eastern Airlines should be permitted to construct a one-stop Customs inspection facility at that airline's satellite terminal. The proposed $70 million dollar Customs facility at the Eastern terminal would be built at no cost to Customs; and in accordance with the specifications and dictates of that Agency. Attached to our statement is a list of other airports where a one-stop inspection procedure could be implemented, and where Customs should be permitted to provide the primary inspection responsibilities.

At each and every airport terminal where one-stop inspection is authorized to go forward, the red/green door dual channel passenger exiting processing procedure should be simultaneously instituted. The red/green door procedure, or a modified form of it, has now proven itself at Boston, Chicago (O'Hare), Houston, Miami, Newark, San Juan, Tampa, and at four satellite terminals and the international arrivals building at Kennedy Airport. It was also just recently introduced at Philadelphia's International Airport. The red/green door procedure facilitates Customs passenger processing while strengthening Customs enforcement capabilities.

Improved efficiencies in Customs cargo processing must also continue. We are pleased to note in this regard that plans are underway by the port authorities at Kennedy and Miami airports to computerize the processing of international air cargo. While the Customs Service is passively participating in these programs, that agency has not allocated funds to support it even though Customs will be a major beneficiary. We urge this Committee to authorize sufficient funding commensurate to the share of benefits which Customs will derive and to request Customs to assume a more active leadership role. At overseas airports such as London and Tokyo, Customs in those countries has allocated funds for the introduction and support of computerized international air cargo processing, and the same in all fairness should be done by U.S. Customs in this country.

An issue of concern to U.S.-Canada transborder airlines and to our friends in the Canadian Government is the refusal of the U.S. Customs Service to allow a test of a concept, called "down-stream" duty-free, whereby a duty-free sales facility occupies an area beyond the Customs baggage inspection counters. The Government of Canada has gone to great lengths to design a plan which complies with all of the enforcement requirements of U. S. Customs. The test will be conducted at no cost to U. S. Customs and can be tried at a preclearance location in Canada chosen by U.S. Customs. Since revenues derived from the sales of duty-free stores help to pay for Customs inspection facilities at airports, we urge this Committee to request Customs to allow such a test, at the end of which U.S. Customs would make the final determination as to the feasibility of the "down-stream" duty-free arrangement.

Although we are concerned by the $9.3 million FY 1985 cut in the Customs inspection and control program, with a proposed reduction of over four hundred inspector positions, we were nevertheless pleased to read in the President's FY 1985 budget message of the need to streamline Federal Government management systems and to otherwise improve the efficiency of the Government. The consolidation of inspection agency functions urged by this Committee over the years and now formally proposed by the Administration -- by assigning primary inspection responsibilities at all U.S. gateway and preclearance airports to Customs -- will greatly streamline and improve the passenger inspection processing system at our airports and will do so at reduced costs to the Government.

In conclusion we urge the Committee to provide appropriations for adequate Customs inspector personnel at preclearance and U.S. gateway airports by restoring $9.3 million inspection service budget cuts proposed by the Administration; to authorize funds to cover Customs' full participation and leadership in a compatible computerized international air cargo program at the Miami and Kennedy airports; to direct Customs to withdraw its opposition to a cost-free testing of a "downstream" duty-free arrangement at a preclearance airport in Canada; and to direct Customs to proceed -- as the agency with primary responsibilities -- with a consolidated one-stop inspection procedure at selected airports, including Miami, New Orleans, Los Angeles and the Transworld and Eastern satellite terminals at Kennedy International airport.

Finally, it is worth noting here that U.S. airlines as good corporate citizens, endorse and support U.S. Customs law enforcement measures. In order for enforcement to be effective, however, Customs must have sufficient resources, including adequate numbers of inspectors. The Administration's proposed cut of 415 Customs inspectors will do exactly the opposite and could impact disastrously both on the Customs security and enforcement missions as well as on the facilitation of international travel and trade.

AIRPORT FEDERAL INSPECTION SERVICES(FIS) FACILITIES
(as of 6 February 1984)

AIRPORT (& TERMINALS)	FIS TERMINAL FLOORS	PROCESSING TYPE	SPECIAL TERMINAL FEATURES	COMPLETION DATE
Anchorage	One	One-Stop,after baggage claim	—	
Atlanta	One	One-Stop,after baggage claim		
*Baltimore	One	Two-Stop		
Boston	Two	Two-Stop	Red/Green, Citizen By-Pass	Jan. 1984
Chicago (O'Hare)	One	Two-Stop	Red/Green, Citizen By-Pass	1982
Cleveland	One	Two-Stop	Citizen By-Pass	
Dallas (American)	One	One-Stop, after baggage claim		Jun. 1983
Dallas (Braniff-Planned 1984)	Two	Two-Stop	One-Stop, Dual Channel, Citizen By-Pass	
Denver	One	One-Stop,after baggage claim		Jun. 83
Detroit	Two	Two-Stop	Citizen By-Pass	
*Dulles	One	Two-Stop	Citizen By-Pass	
Ft. Lauderdale	One	Planning One-Stop (1985)	Citizen By-Pass	
*Honolulu	Two	Two-Stop	Citizen By-Pass	—
Houston (Terminal B)	One	One-Stop,before baggage claim	Red/Green, Dual Channel	Aug. 1982
Houston (Terminal C)	One	One-Stop,before baggage claim	Red/Green, Dual Channel	Feb. 1984
J.F. Kennedy (International Arrivals Building)	One	Two-Stop	Red/Green, Citizen By-Pass	May 1983
J.F. Kennedy, TWA	One	Two-Stop	Red/Green, Citizen By-Pass	May 1983
J.F. Kennedy, Pan Am	One	Two-Stop	Red/Green, Citizen By-Pass	May 1983
J.F. Kennedy, British	One	Two-Stop	Red/Green, Citizen By-Pass	May 1983
J.F. Kennedy, American	Two	Two-Stop	Red/Green, Citizen By-Pass	

AIRPORT FEDERAL INSPECTION SERVICES(FIS) FACILITIES
(as of 6 February 1984)

AIRPORT (& TERMINALS)	FIS TERMINAL FLOORS	PROCESSING TYPE	SPECIAL TERMINAL FEATURES	COMPLETION DATE
Kansas City	One	Two-Stop		——
Los Angeles, bubble	One	One-Stop, after baggage claim		Aug. 1984
Los Angeles, West Terminal	One	One-Stop, before baggage claim		Jun. 1984
Los Angeles #2	Two	One-Stop, before baggage claim	"ASIST"	
Los Angeles #5	Two	Two-Stop,	Citizen By-Pass	——
Miami	Two	Two-Stop	Red/Green, Citizen By-Pass	
Minneapolis	One	One-Stop, after baggage claim		
New Orleans	Two	Planning One-Stop 1984		
Orlando	One	Planning One-Stop 1984		
Philadelphia	One	Two-Stop	Red/Green	Spring 1984
Portland	One	Two-Stop		
San Antonio	One	Two-Stop		
San Francisco	One	One-Stop, after baggage claim	Red/Green, Citizen By-Pass	Aug. 1984
San Juan	Two	Two-Stop	Red/Green, Citizen By-Pass	
*Seattle	Two	Two-Stop	Citizen By-Pass	
St. Louis	One	Two-Stop		
Tampa	One	Two-Stop	Red/Green, Citizen By-Pass	1983

ABBREVIATIONS

Red/Green ... Red/Green Door Dual Channel Customs/Agriculture Passenger Inspection Exit Procedure.

FIS .... Federal Inspection Services.

ASIST .... Accelerating Specialized Inspection System Test.

* .... Previously planned Red/Green Door with Citizen By-Pass prior to the President's Cabinet Council Management and Administration decision to consolidate Immigration and Customs functions. All other plans to convert to Red/Green Customs areas are now "on hold" pending resolution of Customs/Immigration consolidation.

Senator ABDNOR. Well, thank you, Mr. Gorson. Like I said, we are not going to take much time for questions, but you do approve, then, of the proposed consolidation of inspection that is being looked at today?

Mr. GORSON. We wholeheartedly endorse the consolidation concept. We did not suggest one way or the other, but now that the administration has made a decision, we certainly do support it and hope it will go forward, sir, with the approval of this Congress.

Senator ABDNOR. OK, that is good to know.

This downstream proposal—did that come out of Canada? They proposed trying it, is that the idea, and we have not responded yet to it?

Mr. GORSON. That is correct, Mr. Chairman. The Canadians would like to test it at a preclearance airport. It would be beyond the Customs baggage inspection counter. There is complete sterility, complete security. What the Canadian Government would like to do is to test it.

If Customs says, after the testing, it is not feasible, then they would accept that judgment. The problem here is that the U.S. Customs Service refuses even to entertain a test.

Senator ABDNOR. They have been asked and have not even responded, is that right?

Mr. GORSON. They were formally asked during talks with the Canadian Government in January.

Senator ABDNOR. Again, we note with interest your concern about the cuts in the number of employees. We are concerned, too, and we have already made an issue of it. We will pursue it further. We have Customs coming before this subcommitteee.

I am sure you, too, are concerned and we just want to make sure that whatever we do, we are not going to let down our capabilities of running Customs like it should be, catching the many people who come into this country illegally. We are particularly concerned about the drug problem, of course, as much as anyone.

Mr. GORSON. As good citizens, we are, too, sir.

Senator ABDNOR. I am sure you are. Well, thank you very, very much. We appreciate your attendance here today.

Mr. GORSON. Thank you, Mr. Chairman.

Senator ABDNOR. Well, the next witness has not arrived yet, James Peirce, president of the National Federation of Federal Employees. Is there anyone here to represent him?

[No response.]

Senator ABDNOR. We will skip over him for now and ask Mr. John Block, who is commissioner of the Port of Seattle, to come forward. We welcome you, gentlemen. I have had the opportunity to meet Mr. Block in the dining room today.

PORT OF SEATTLE COMMISSION

STATEMENT OF JOHN BLOCK, COMMISSIONER

ACCOMPANIED BY THOMAS ALLISON

Mr. ALLISON. Mr. Chairman, I am Tom Allison and I represent the Port of Seattle. With me here is Jack Block, one of our elected commissioners, whom, as you noted, you met briefly recently. He has a summary of his statement that he would like to read to save the committee's time.

Senator ABDNOR. Fine. Mr. Block, we know you have come a long way and we do not like to cut you too short, but we do have to move along, so you can proceed in any way you would care to.

Mr. BLOCK. Thank you, Senator. I appreciate this opportunity to appear and speak before the subcommitteee on the fiscal 1985 Customs Service appropriation.

The Port of Seattle owns Seattle-Tacoma International Airport, one of the Nation's largest, with more than 10 million passengers each year. Our waterfront facilities handle almost 1 million containers a year, making it the largest container port on the west coast.

Before I begin, let me thank the chairman and the subcommitteee once more for their past understanding and support. The subcommittee's effort to maintain necessary funding of the Customs Service is appreciated.

The administration's proposed fiscal 1985 budget for Customs, if approved, will cause intolerable delays at our Nation's ports of entry. Obviously, I cannot speak to the Customs situation as it applies nationally, but I would like to share with you our experience in Seattle.

First, we have a good relationship with Customs in the region. The Director really knocks himself out trying to cover and cope with the problems caused by understaffing and an increasing workload. Customs should be commended for the innovations it has instituted to make the system more streamlined and efficient because they just do not have the people to handle what they have got out there.

These new programs and procedures take time to test and implement. There are limits to the improvements that can be made when the workload increases in leaps and bounds. Moreover, the streamlining efforts are doomed to fail if Customs is understaffed. When the system overloads, the spring breaks. The new programs go to the wayside.

The risk of commercial product piracy and the drug smuggling increases, and the delays become intolerable. In the last 4 or 5 months, Senator, we have picked up 50 pounds of heroin at Sea-Tac International Airport. In the last 2 months, we have stopped 12 body carriers; those are the ones that either ingest it or hide it within their bodies.

Anytime this occurs, we have to pull two Customs officers off the line to go with these people. This decreases the number of officers that are available for primary and secondary work at their stations.

At Sea-Tac last year, Customs cleared nearly 500,000 arriving passengers, an increase of more than 11 percent over 1982. Customs did the job with only 32 full-time journeyman inspectors, an actual decrease of 1 position since 1977. I would like to repeat that; that is since 1977. Only 340,000 international passengers arrived at the airport at that time.

This year, with four airlines now serving the Far East, offering more than 21,000 seats each week, we expect as many as 600,000 international passenger arrivals at the airport, and that is not even including the group we expect for the games in Los Angeles.

The Port of Seattle, like other ports and public and private agencies, is placing an increasing emphasis on the promotion of travel and tourism as a means of economic development. We have committed a tremendous amount of our own resources to make it successful. We have spent $18 million to build an international arrival area at our airport. We have spent hundreds of thousands of dollars promoting tourism in the Japanese market.

We anticipate a great number of these people will be visiting the Northwest this summer, coming through Seattle as a gateway and then going to Alaska. We are concerned that all of our investments may be wasted if our Nation's gateway entry points develop a reputation for Customs delays and hassles, particularly with this Japanese market.

If we have one disgruntled tourist coming through from Japan, the word gets back. In fact, one of our major carriers already is having trouble selling seats to Seattle because of this problem.

I work nights on the Seattle waterfront as a longshoreman. The Customs agents work the entries on the Seattle waterfront at night sometimes until 3 or 4 o'clock in the morning, and then have to go out and do double duty at the airport. Quite often, our international arrivals will come in at the same time, so they work all night, then go out there and meet the traveling public.

As many of us know of travel internationally, you get off that airplane and you are tired and you are frustrated. Then, to stand in a line for half an hour or 45 minutes and then meet a Customs inspector who is just as tired and frustrated as you are—it causes some real problems and the friction really starts.

If you get one individual, again, who goes back and tells his friends about this, the reputation spreads and then we have a real problem.

Already an executive—in fact, it is United Airlines that is having this problem—has told us about the problem of selling seats to Seattle.

Traffic to the Far East jumped 70 percent in December of last year alone, and cargo shipments are up sharply, particularly on the waterfront, as well as air freight coming into Sea-Tac. There now seems to be an influx of heavy imports coming into our country and, as a gateway point, they are coming through Seattle.

On a typical day, Customs has just 8 or 9 of its primary inspection stations manned and 6 or 8 of the 10 secondary stations. The situation is worse when inspectors do their job best. If, for example, a passenger is detected with illegal drugs, as I mentioned earlier, it takes two Customs officers to take them in, do the search, and carry out the procedure.

To Customs' credit, more than 50 pounds of heroin has been seized at Sea-Tac during the past 6 months. That figure also demonstrates the frequency and severity of the problem. To continue to expand, we have to have the support of a well-staffed, fully functioning Customs Service on the waterfront.

We do not hear many complaints from cargo, but we do see a lot of diversion because we do not have the Customs agents available to handle the entries. They handled 350,000 entries this last year. Often, you will find 9 or 10 bills of lading on one entry and it takes a great deal of documentation and time to go through this paperwork. They are just not able to carry out the caseload.

The proposed reduction of almost 1,000 positions in the fiscal 1985 Customs budget will compound and make worse an already intolerable situation. At a minimum, we urge you to maintain current levels of funding.

During the current fiscal year, Congress appropriated funds to provide for 13,323 Customs positions. This was an increase of almost 2,000 positions over what the administration had requested.

Frankly, we have no confidence that Customs is being staffed to the level directed by Congress. We have certainly not seen any evidence of it, and we urge you to direct Customs to staff the agency at the level set by Congress.

My final point: Customs in Seattle needs additional staffing and resources. The flexibility this summer to maintain the use of part-time inspectors to assist during peak arrival periods at the airport is paramount in our mind. We are hopeful of resolving this matter administratively with Customs, but if we are unable to do so, we will have chaos at the airport in just a few short months.

Last year, we had 20 part-time Customs people working at the airport and it worked out very well for us. They filled in when we had these peak hours. For example, we had two or three international flights arrive at one time. We can schedule them in for this part-time duty.

Last summer, Customs had 24 inspectors available that could be called in to work part-time. As I indicated, we think it will probably require at least 30 or 35 this summer to implement this program.

We are also concerned that because of the Olympic games this summer in Los Angeles, Seattle, and other ports of entry may suffer as resources are diverted to California. I would ask, Mr. Chairman, that you seek assurances from Customs officials that they will not borrow from Peter to pay Paul and that this summer the necessary part-time positions in Seattle will be maintained.

PREPARED STATEMENT

Thank you, Mr. Chairman. I know I have taken a great deal of your time. I welcome any questions.

[The statement follows:]

STATEMENT OF JACK BLOCK

My name is Jack Block. I am an elected member of the Port of Seattle Commission and am here representing myself and other members of the Commission.

I appreciate this opportunity to appear and speak before the Subcommittee on the fiscal 1984 Customs Service appropriation.

The Port of Seattle owns Seattle-Tacoma International Airport, one of the nation's largest with more than 10 million passengers each year. Our waterfront facilities handle almost one million containers a year, making it the largest container port on the West Coast.

Before I begin, let me thank the Chairman and members of the Subcommittee for their past understanding and support. The Subcommittee's effort to maintain necessary funding of the Customs Service is appreciated.

Regrettable as it may be, this is becoming an annual event: The Administration proposes new reductions in Customs inspector positions and the burden of restoring them to a necessary level falls to Congress.

Any reduction in Customs' funding, or in other border management agencies, will cause intolerable delays and law enforcement problems at our nation's ports of entry.

These delays are obviously inconvenient and expensive to those organizations and individuals impacted directly. But, more importantly, they also have an adverse effect on major sectors of our national economy.

International tourism, for example, is in reality the fourth largest U.S. export industry, improving our balance of trade by 11 billion dollars. To the extent border management policies make it unreasonably difficult or unattractive for foreign visitors to enter this country, we are limiting the growth of that industry to our own economic detriment.

Likewise, delays in processing shipments of merchandise increase the cost of doing business in international trade, make it more difficult for U.S. companies to export, and increase the cost of goods to American consumers.

Inadequate cargo and passenger facilitation by Customs is a national problem that is getting worse as the world economy improves, and travel and tourism increase.

The Administration's proposed fiscal 1985 budget for Customs, if approved, will exacerbate this growing problem.

Obviously, I cannot speak to the Customs situation as it applies nationally, but I would like to share with you our experience in Seattle.

First, we have a good relationship with Customs in the region. The Director knocks himself out trying to cover and cope with the problems caused by understaffing and an increasing workload.

And Customs should be commended for the innovations it has instituted to make the system more streamlined and efficient.

But new programs and procedures take time to test and implement. And there are limits to the improvements that can be made when the workload increases in leaps and bounds.

Moreover, the streamlining efforts are doomed to fail if Customs is understaffed. When the system overloads, the new programs go to the wayside. The risk of commercial product piracy and drug smuggling increases. And the delays become intolerable.

At Sea-Tac last year Customs cleared nearly 500,000 arriving passengers, an increase of more than 12 percent over 1982. Customs did the job with only 32 full-time journeyman inspectors -- an actual decrease of one position since 1977 when only 340,000 international passengers arrived at the airport.

This year -- with four airlines now serving the Far East offering more than 21,000 seats each week -- we expect as many as 600,000 international passenger arrivals at the airport.

Traffic to the Far East jumped 70 percent in December alone. Air cargo shipments are up sharply. On the waterfront, Seattle had its best year ever in 1983 and the forecast for 1984 is even greater.

One day last summer we had five overseas flights arrive with 1,224 passengers in a three and one-half hour period.

On a typical day, Customs has just eight or nine of its 14 primary inspection stations manned, and six or eight of the 10 secondary stations.

The situation is worst when inspectors do their job best. If, for example, a passenger is detected with illegal drugs, two inspectors must be taken off the line for hours while the individual is arrested and processed. On one international flight, arriving at Sea-Tac, three separate passengers were discovered with illegal drugs and six inspectors had to be taken off the line.

To Customs' credit, more than 50 pounds of heroin has been seized at Sea-Tac during the past six months. That figure also demonstrates the frequency and severity of the problem.

To continue to expand, we have to have the support of a well-staffed, fully functioning Customs service.

The Port of Seattle, like other ports and public and private agencies, is placing an increasing emphasis on the promotion of travel and tourism as a means of economic development.

We have committed a tremendous amount of our own resources to make it successful.

By the end of next year, we will have completed a three-year, $18-million program to expand and improve the international arrival area at Sea-Tac. We're spending $1 million this year just to speed baggage handling. We've committed another $200,000 in Japan to promote travel to Seattle and the U.S. We've invested thousands more to assist foreign visitors in overcoming language and other barriers.

But we're concerned that all of our investments may be wasted if our nation's gateway entry points develop a reputation for Customs delays and hassles.

Already, an executive of a major U.S. airline has told us the biggest problem his company faces in selling seats to Seattle from Tokyo is Customs delays. We also know of at least one weekly 747 cargo flight that has been switched to another airport because of Customs delays in Seattle.

On the waterfront, we hear fewer complaints because cargo doesn't complain. The shippers just quietly find another avenue to bring their cargo into the U.S.

* * * * * * * * * * * *

We have three special areas of concern that I hope this Subcommittee will consider:

1. The proposed reduction of almost 1,000 positions in the fiscal 1985 Customs' budget will compound and make worse an already intolerable situation. At a minimum, we urge you to maintain current levels of funding.
2. During the current fiscal year, Congress appropriated funds to provide for 13,323 Customs positions. This was an increase of almost 2,000

positions over what the Administration had requested. Frankly, we have no confidence that Customs is being staffed to the level directed by Congress. We've certainly not seen any evidence of it. We urge you to direct Customs to staff the agency at the level set by Congress.

3. Customs in Seattle needs additional resources and flexibility this summer to maintain the use of part-time inspectors to assist during peak arrival periods at the airport. We are hopeful of resolving this matter administratively with Customs, but if we are unable to do so we will have chaos at the airport in just a few short months.

Last summer, Customs had 24 inspectors available that could be called in to work part-time during peak arrival periods. This year, we are told, there is so far no commitment for any part-time assistance.

Customs is especially hard-hit in summer -- with the peak of the tourism season and with its own people on vacation leave.

We are also concerned that because of the Olympic Games this summer in Los Angeles, Seattle and other ports of entry may suffer as resources are diverted to California.

I would ask, Mr. Chairman, that you seek assurances from Customs officials that they will not borrow "from Peter to pay Paul" this summer and that the necessary part-time positions in Seattle be maintained.

Finally, as a citizen, I believe it is important for Customs to be staffed at a sensible level, not just to protect our borders and to avoid delays, but also because the Customs inspector working the line is the first American a foreign visitor meets in this country.

The visitor's impression of our country -- and our government -- is formed in those first few moments at Customs.

And, equally important, for returning U.S. citizens -- arriving often after long and fatiguing flights, the visit to Customs is a "welcome" home.

It should be a welcome, "welcome" home.

Thank you.

Senator ABDNOR. Not at all, Mr. Block. We are very concerned with your views on this because you work everyday with the problem.

Now, you are a commission of both airports and seaports?

Mr. BLOCK. Well, we have jurisdiction of the Seattle International Airport and also the waterfront facilities.

Senator ABDNOR. Do you see an increase in both areas on the smuggling that is taking place?

Mr. BLOCK. A tremendous increase. We have become a major point of entry for drug smuggling.

Senator ABDNOR. The gentleman who heads up our staff here just returned from Los Angeles and we had the same report out there. There has been a noticeable increase. I do not know whether that is because we are pushing them out of Florida and into the other parts or what, but it is a problem.

Obviously, you did not think we had enough bodies doing the job as part of this proposed cut, is that correct?

Mr. BLOCK. That is correct. We have four positions on the waterfront that have not been filled; there are four vacancies.

Senator ABDNOR. Are numbers alone going to be the answer to some of this? I mean, is there a point where enoughis enough?

Mr. BLOCK. I think enough is enough, yes, but it does not make sense to be working these people part-time or overtime when we could have full-time officers on duty who are more experienced. And it is going to be a lot cheaper and there is going to be more revenue coming in anyway from the dutiable items; they will more than pay for themselves.

We have one sniffer dog for the Customs district. If they need an additional dog or two, they have to borrow them either from our police force at the airport or the King County police force.

For example, we will have 1 million containers coming through the port of Seattle this year. They will go down and make random inspections. They will open up a container door and a dog will come in and sniff for dope, and they can do possibly 30 containers in an hour, but with only one dog.

Senator ABDNOR. Well, we appreciate your coming all the way out to deliver the message, and we certainly received it and it is going to be very helpful, I am sure, when we visit with Customs.

Mr. BLOCK. I would hope so. Thank you, Senator.

Senator ABDNOR. Thank you.

Mr. ALLISON. Thank you.

Senator ABDNOR. Our next witness is Robert Tobias, national president of the National Treasury Employees Union.

NATIONAL TREASURY EMPLOYEES UNION

STATEMENT OF ROBERT M. TOBIAS, NATIONAL PRESIDENT

Mr. TOBIAS. Mr. Chairman, I am Robert Tobias, national president of the National Treasury Employees Union. We are pleased to appear before you today to discuss the fiscal year 1985 authorization of appropriations for the Internal Revenue Service and the U.S. Customs Service.

We believe that IRS can make a major contribution to reducing the size of the Federal deficit. Last year, IRS estimated the size of the tax gap—the difference between taxes legally owed and taxes voluntarily paid—at $81 billion. According to the Finance Committee, this figure could grow to $150 billion in 1985, yielding a cumulative tax loss of $500 billion over a 5-year period.

Recovery of these revenues is not only an urgent national need; it is essential to an equitable tax system. To achieve this, IRS requires additional resources to deal with the principal areas of taxpayer compliance—underreporting of income, nonfiling of tax returns, low audit coverage, abuse of tax shelters, and collection of past due accounts.

You will recall that 2 years ago Congress authorized 5,000 additional positions and made changes in the tax code to improve taxpayer compliance and collection. The revenues from this initiative are now being realized. I would like to read to you the estimate of receipts that appears on pages 4 through 8 of this year's budget.

Fiscal year, $4.7 billion; fiscal year 1984, $12 billion; fiscal year 1985, $9.4 billion; fiscal year 1986, $9.9 billion; fiscal year 1987, $9.9 billion. Over the 5-year period 1983 to 1987, a grand total of $46 billion will have been raised by this revenue initiative, at a cost of $750 million over the same 5-year period for those 5,000 positions.

What is called for in present circumstances is another revenue initiative. You will note that the recommendations of the principal advisory bodies to the Congress, CBO and GAO, favor bold and determined actions. It is against this background—the urgent need to take action on the Federal deficit and the extraordinary challenge of our tax compliance problems—that the administration's budget request for IRS should be evaluated.

I can only say, Mr. Chairman, that the administration has missed the boat. This is a budget of lost opportunity; it is essentially a stand-pat budget. This budget claims to add 3,555 positions for modernization, containing the tax gap, implementing the Interest and Dividends Tax Compliance Act passed last year, and for increased workload.

At the same time, it decreases IRS overall by some 900 positions. Where are the resources coming from? In this budget, they come from two sources: program reductions and productivity savings.

With regard to productivity savings, the administration claims that a total savings of 3,700 average positions will be achieved in fiscal year 1985. There is little doubt that significant productivity gains have been and will continue to be achieved by the Service as a result of automation. We favor such improvements, which we believe will make it possible for IRS to share the rise in productivity with its employees through improvements at the workplace, more incentive awards, and more flexitime.

However, in this budget about half the claimed productivity savings, 1,864 average positions, have no source of the savings specified. We believe these to be phony savings, unless the administration can demonstrate otherwise.

If you subtract program reductions and unspecified productivity savings from the program increases contemplated by this budget, the net result is an increase of about 1,000 average positions in examination and appeals—tables 1 and 2 which I will submit for the record.

We welcome the increase in examination and appeals, but it falls far short of the 3,555 positions the budget says it needs for modernization, containing the tax gap, implementing interest and dividend compliance, and workload increases.

The need for these positions is recognized, but they are unfunded, and the fact that they are unfunded is disguised by claiming unwarranted productivity gains and program reductions.

There are funds cut from this budget to achieve a servicewide reduction in grades 11 to 15, another administration initiative. We believe the case of IRS shows the absurdity of attempting to apply such a personnel policy across the board. IRS revenue agents, revenue officers, and tax auditers are woefully undergraded, as demonstrated by the low retention rates and inability to compete for quality graduates.

Even the press is making this point. Here is an article from the Gannett News Service entitled "Best Accountants Leaving IRS for Greener Pastures." Here is an editorial from the Washington Post entitled "David (IRS) versus Goliath, Inc.," which talks about auditing a large, multinational corporation and says, "Who trembles? You, the GS–13, or they, the field marshals ahead of battallions of accountants and lawyers?"

We can think of no more disastrous blow to the morale and professionalism of the Service than this proposal and we urge its repudiation.

I would like to conclude by presenting an alternative budget for IRS which also embodies a revenue-enhancing initiative to reduce the Federal deficit. This initiative is more modest in scope than the CBO proposal I discussed earlier.

We propose an additional $101.6 million for 3,900 average positions, allocated in a balanced way between the major compliance programs—examination, collection, information returns,and taxpayer service. Over the period 1985 to 1989, the program would cost $508 million and would yield $6.8 billion to the Treasury.

The program would add 1,100 positions at a cost of $22.2 million for processing tax returns. This would permit raising service center contacts with underreporters and nonfilers under the information returns program from 4.8 million to approximately 6.8 million contacts.

I might add that, really, the mission of the Internal Revenue Service is to increase taxpayer compliance, and the more contacts that the Internal Revenue Service has with the taxpayers, the more likelihood that there will be taxpayer compliance. So we think it is very important that we increase the contacts as a result of discovering the underreporters and nonfilers.

Additional revenue of $111 million annually would result from following up these additional leads in both service centers and district offices.

Add 2,000 positions to examination and 100 positions to appeals, at a cost of $61.6 million. This would permit 183,000 more examinations and contacts than in the administration's program, raising examination coverage from 1.42 percent to 1.60 percent, and yielding an additional $1 billion annually.

I might add that the percentage of returns audited by revenue agents is down from 1.9 percent a short 4 years ago. The increase in appeals would permit more emphasis on tax shelter cases and reduction of appeals' backlog.

Add 500 positions at a cost of $12.9 million for collection. This would permit closing 131,000 more taxpayer delinquent accounts and collecting $243 million in additional revenue. It would reduce the backlog in taxpayer delinquent accounts from 1.9 to 1.8 million and reduce the revenue in active inventory from $7.5 to $7.3 billion.

Add 200 positions at a cost of $4.9 million for taxpayer service. This would permitt assisting 50 million taxpayers, 2.4 million more than the administration's program. With this increase, IRS would be able to assist two out of three taxpayers who request assistance.

I might add, Mr. Chairman, that the numbers that we used to generate our projections are the kinds of numbers that, to my knowledge, are only available in the Internal Revenue Service that maintains very, very accurate records of what employees do with their time and what results are obtained from their efforts.

So we are not speaking here, when we talk about more people yielding more revenue, about some abstract concept, but proven projections based on past records.

Since the administration's fiscal year 1985 budget reduces IRS by 900 positions, the addition of 3,900 positions would raise IRS staffing 3,000 positions above the current level.

We strongly recommend adoption of NTEU's alternative budget of $3,633,442,000 and 92,279 average positions for IRS for fiscalyear 1985.

I would now like to turn to the U.S. Customs Service. As the committee is aware, the principal mission of the Customs Service is to intercept narcotics traffic and other contraband crossing our borders and to monitor the flow of travelers and merchandise through U.S. ports of entry. In addition, Customs is a key revenue-producing agency, adding over $10 billion a year to the U.S. Treasury.

Though there is an obvious need to provide adequate funding for Customs to meet the challenges of growing international travel and trade, the Reagan administration has once again undersold Customs' fiscal requirements and over-promised the anticipated results of so-called improved enforcement and inspection techniques.

This year's budget request of $602 million and 12,447 positions is $14 million and over 900 positions less than Congress provided in the fiscal year 1984 continuing appropriations resolution passed last November.

The continuing appropriations resolution itself contained a 400-position cut from Customs' 1983 operating level. As a result, Customs currently has in place a freeze on hiring. Of course, what that means is fewer people every single day performing the Customs work.

Based on Customs' own figures, the administration's budget request is $56 million short of a current services budget. In the strongest terms possible, we recommend that you appropriate this additional $56 million to restore the cuts in this year's budget, and that you add at least 650 new positions to the current work force, at a cost of $29 million.

The reason we are supporting an increase is simple. During the past 10 years, while the number of passengers and the volume of cargo entering the United States nearly doubled, Customs personnel ceilings remained essentially static. The fact is that there are fewer inspectors and import specialists on board today than there were in 1975.

The sad truth is that narcotics smuggling continues to grow at an alarming rate and that it has led to an epidemic level of crime in our communities. In addition, international travelers continue to face maddingly long lines at our borders.

For several years, this subcommitteee has pressed Customs to implement improved inspectional systems to speed clearance, but the bottom line is that more inspectors are needed and no amount of procedural efficiencies will change that.

The same holds true for recent efforts to control commercial fraud. Last year, witnesses from the steel, auto parts, electronics, and textile industries testified before Congress that they are suffering significant losses from counterfeit imports and the evasion of antidumping and countervailing duty laws.

At the same time, Customs has cut back inspections of cargo to well below 3 percent, and now requires import specialists to bypass, at a minimum, 50 percent of the entry documents they receive. In some locations, import specialists are reviewing less than 50 percent of the merchandise entries.

Whether you call yourself a free trader or a protectionist or something in between, there is no excuse for not enforcing existing trade and tariff laws. Mr. Chairman, I would like to take this opportunity to applaud the efforts of this committee in focusing attention on the sorry state of the Customs commercial fraud operations.

As you are aware, on February 29, the Senate adopted an amendment to the Export Administration Act to provide an additional $12 million to Customs to combat commercial fraud and to restrict Customs from taking personnel actions which would undermine its trade operations. We wholeheartedly endorse this amendment and urge the subcommitteee to include a similar provision in the fiscal year 1985 appropriation bill.

Before I conclude, I would like to touch upon one additional issue. We urge you to reject the recent recommendation of the President's Cabinet Council on Management and Administration to transfer Customs' primary inspection functions at land border ports to the Immigration and Naturalization Service.

We oppose the plan for the following reasons. It would undermine narcotics interdiction by fragmenting responsibility between two agencies. It would also require INS to take on responsibility for enforcing the requirements of 40 different agencies, a mission for which it has no experience and is ill-prepared.

In addition, it would require the importing community at all but the largest ports to deal with INS as well as Customs in processing commercial cargo. Finally, by the administration's own admission, it would achieve zero budgetary savings and would probably cost the Government money by retaining two separate enforcement support systems.

We do believe, however, that there should be a single agency charged with border inspections. Customs is the Nation's principal border management agency, enforcing over 400 laws and regulations of 40 other agencies. It has more inspectors than INS at all ports of entry and is now performing 60 percent of all immigration primary inspections.

Consolidation within Customs is the least disruptive and easiest to implement because it maintains continuity with other Federal agencies whose border interest Customs represents, andit does not require carriers, port operators, and the business community to deal with a new agency.

PREPARED STATEMENTS

Mr. Chairman, this concludes my remarks. I would be very happy to answer any questions you may have at this time.

[The statements follow:]

STATEMENTS OF ROBERT M. TOBIAS

I am Robert M. Tobias, National President of the National Treasury Employees Union. NTEU is the exclusive representative of over 120,000 Federal employees, including virtually all employees of the Internal Revenue Service. On behalf of the dedicated men and women who collect the revenue of the Federal government, it is a pleasure to appear before you today to discuss the Administration's budget request for IRS for Fiscal Year 1985.

We believe that IRS can make a major contribution to reducing the size of the Federal deficit. Last year, IRS estimated the size of the tax gap -- the difference between taxes legally owed and taxes voluntarily paid -- as $81 billion in 1981. According to the Finance Committee, this figure could grow to $150 billion in 1985, yielding a cumulative tax loss of $500 billion over a five-year period. Recovery of these revenues is not only an urgent national need, it is essential to an equitable tax system.

To achieve this, IRS requires additional resources to deal with the principle areas of taxpayer non-compliance -- underreporting of income, non-filing of tax returns, low audit coverage, abuse of tax shelters, and collection of past-due accounts. As the General Accounting Office stated last year:

> "Additional resources will result in a large and immediate flow of tax revenue to the Treasury. These resources are not only justified by the increasing workload and potential revenue gains, but -- and this is equally or more important -- the need to cope with the general problem of decreasing compliance." (Italics supplied.)

This is not an unproven theory, as the results of the revenue initiative of Fiscal Year 1983 amply demonstrate. You will recall that two years ago Congress authorized 5,000 additional positions and made changes in the tax code to improve taxpayer compliance and collection. The revenues from this initiative are now being realized. I would like to read to you the estimate of receipts that appears on page 4-8 of this year's budget: Fiscal Year 1983, $4.7 billion; Fiscal Year 1984, $12.0 billion; Fiscal Year 1985, $9.4 billion; Fiscal Year 1986, $9.9 billion; Fiscal Year 1987, $9.9 billion. Over the five-year period, 1983-1987, a grand total of $46 billion will have been raised by this revenue initiative, at a cost of $750 million over the same five-year period for those 5,000 positions.

These results show the tremendous revenue potential of our tax system when relatively small increments of resources are added to the substantial plant in existence. Where else in the entire government will an investment of $750 million yield revenues of $46 billion?

What is called for in present circumstances is another revenue initiative. In fact, such an initiative has already been proposed. It comes from Mr. Rudolph Penner, head of the Congressional Budget Office, and is contained in Part 3, page 210 of his report issued to the Congress last month entitled: Reducing the Deficit: Spending and Revenue Options. Mr. Penner recommends investing $1.5 billion over five years to improve taxpayer compliance by raising audit coverage from 1.5 percent to 1.9 percent. By CBO's estimate, this would result in additional revenue of $18.4 billion over the FY 1985-1989 period.

You will note that the recommendations of the principle advisory bodies to the Congress, CBO and GAO, favor bold and determined actions. It is against this background -- the urgent need to take action on the Federal deficit, the extraordinary challenge of our tax compliance problems --that the Administration's budget request for IRS should be evaluated. I can only say, Mr. Chairman, that the Administration has missed the boat. This is a budget of lost opportunity. It is essentially a stand-pat budget.

This budget claims to add 3,555 positions for modernization, containing the tax gap, implementing the Interest and Dividends Tax Compliance Act passed last year, and for increased workload. At the same time, it decreases IRS overall by some 900 positions. Where then are the resources coming from? In this budget, they come from two sources: program reductions (which is robbing Peter to pay Paul), and productivity savings.

With regard to productivity savings, the Administration claims that a total saving of 3,700 average positions will be achieved in FY 1985. There is little doubt that significant productivity gains have been, and will continue to be, achieved by the Service as a result of automation. We favor such improvements, which we believe will make it possible for IRS to share the rise in productivity with its employees through improvements at the workplace, more incentive awards, and more flexitime. However, in this budget about half of the claimed productivity saving -- 1,864 average positions -- have no source of the saving specified. We believe these to be phony savings, unless the Administration can demonstrate otherwise.

If you subtract program reductions and unspecified productivity savings from the program increases contemplated by this budget, the net result is an increase of about 1,000 average positions in Examination and Appeals. Tables 1 and 2, which I will submit for the record, bear out this point. We welcome the increase in Examination and Appeals, but it falls far short of the 3,555 positions the budget says it needs for modernization, containing the tax gap, implementing interest and dividend compliance, and workload increases. The need for these positions is recognized, but they are unfunded, and the fact that they are unfunded is disguised by claiming unwarranted productivity gains and program reductions.

There are two additional points I would like to make about this budget. The first is that IRS has missed another opportunity to clarify the role of the Detroit Data Center. The Detroit Data Center has traditionally provided the management information systems that permit IRS to manage its programs, administration, and logistics. As a result of pressure from the Administration, IRS has been studying the feasibility of contracting out much of this work. The budget calls for development of an important new management information system, for the Information Returns program. Whether this work will be contracted out, or what the role of the Detroit Data Center will be, is not discussed in the budget and we urge the Subcommittee to seek a prompt resolution of this matter.

The second point is that there are funds cut from this budget to achieve a servicewide reduction in grades 11-15, another Administration initiative. We believe the case of IRS shows the absurdity of attempting to apply such a personnel policy across the board. IRS Revenue Agents, Revenue Officers, and Tax Auditors are woefully undergraded, as demonstrated by low retention rates and inability to compete for quality college graduates. Even the press is making this point. Here is an article from the Gannett News Service titled "Best Accountants Leaving IRS for Greener Pastures". Here is an editorial from the Washington Post entitled "David (IRS) vs. Goliath, Inc.", which talks about auditing a large multi-national corporation and says, "Who trembles? You, the GS-13, or they, the field marshals ahead of battallions of accountants and lawyers?" We can think of no more disastrous blow to the morale and professionalism of the Service than this proposal, and we urge its repudiation.

I would like to conclude by presenting an alternative budget for IRS which also embodies a revenue-enhancing initiative to reduce the Federal deficit. This initiative is more modest in scope than the CBO proposal I discussed earlier. We propose an additional $101.6 million for 3,900 average positions allocated in a balanced way between the major compliance programs (Examination, Collection, Information Returns) and Taxpayer Service. Over the period FY 1985-1989, the program would cost $508 million and would yield $6.8 billion to the Treasury.

The NTEU program would:

- Add 1,100 positions at a cost of $22.2 million for Processing Tax Returns. This would permit raising service center contacts with underreporters and nonfilers under the Information Returns program from 4.8 million to approximately 6.8 million contacts. Additional revenue of $111 million annually would result from following up these additional leads in both service centers and district offices.
- Add 2,000 positions to Examination and 100 positions to Appeals at a cost of $61.6 million. This would permit 183,000 more examinations and contacts than in the Administration's program, raising examination coverage from 1.42 percent to 1.60 percent, and yielding an additional $1 billion annually. The increase in Appeals would permit more emphasis on tax shelter cases and reduction of Appeals' backlog.
- Add 500 positions at a cost of $12.9 million for Collection. This would permit closing 131,000 more taxpayer delinquent accounts, and collecting $243 million in additional revenue. It would reduce the backlog in taxpayer delinquent accounts from 1.9 to 1.8 million, and reduce the revenue in active inventory from $7.5 to $7.3 billion.
- Add 200 positions at a cost of $4.9 million for Taxpayer Service. This would permit assisting 50 million taxpayers, 2.4 million more than the Administration's program. With this increase, IRS would be able to assist two out of three taxpayers who request assistance.

Since the Administration's FY '85 budget reduces IRS by 900 positions, the addition of 3,900 positions would raise IRS staffing 3,000 positions above the current level.

We strongly recommend adoption of NTEU's alternative budget of $3,633,422,000 and 92,279 average positions for IRS for FY 1985. We would also support adoption of the more ambitious CBO plan discussed earlier, or some compromise between our two plans.

Mr. Chairman, this concludes my testimony. I would be happy to answer any questions.

Mr. Chairman and distinguished members of the Subcommittee:

I am Robert M. Tobias, National President of the National Treasury Employees Union. NTEU is the exclusive representative of over 120,000 active and retired federal workers, including all employees of the U.S. Customs Service worldwide. With me is Paul Newton, our Director of Legislation, and we are pleased to appear before you today to discuss the Fiscal Year 1985 authorization of appropriation for the Customs Service.

As the Subcommittee is aware, the principle mission of the Customs Service is to intercept narcotics traffic and other contraband crossing our borders and to monitor the flow of travelers and merchandise through U.S. ports of entry. In addition, Customs is a key revenue producing agency, adding over $10 billion a year to the U.S. Treasury.

Each of these activities -- border enforcement, revenue collection, and tariff and trade regulation -- is vital to the well being of our nation. And in each of these areas, Customs will face greater challenges during the coming year than at any time in its 200-year history.

International trade and tourism, an essential element in our economic recovery, will continue to grow and place further strains on Customs' ability to cope with congestion at our nation's air, land and sea ports of entry. Increasing commercial fraud threatens to undermine the recovery of basic industries such as steel, electronics, and textiles. The drug war, fought daily on the streets of our cities and in our high schools, is still escalating. And finally, as international tensions worsen, our strategic interest in halting the flow of critical technology to unfriendly nations will become an important national security issue.

Though there is an obvious need to provide adequate funding for Customs to meet these challenges, the Reagan Administration has once again undersold Customs' fiscal requirements and overpromised the anticipated results of so-called improved enforcement and inspection techniques. This year's budget request of $602 million and 12,447 positions is $14 million and over 950 positions less than Congress provided in the FY 1984 Continuing Appropriations Resolution passed last November. The Continuing Appropriations Resolution itself contained a 400-position cut from Customs' 1983 operating level; as a result, Customs currently has in place a freeze on hiring.

Based on Customs' own figures, the Administration's budget request is $56 million short of a current services budget. In the strongest terms possible, we recommend that you appropriate this additional $56 million to restore the cuts in this year's budget, and that you add at least 650 new positions to the current work force, at a cost of $29 million.

The reason we are supporting an increase in Customs' personnel is simple: During the past ten years, while the number of passengers and the volume of cargo entering the U.S. nearly doubled, Customs personnel ceilings remained essentially static. The fact is that there are fewer inspectors and import specialists on board today than there were in 1975.

The sad truth is that narcotics smuggling continues to grow at an alarming rate and that it has led to an epidemic level of crime in our communities. It has been estimated that 90 percent of the illegal drugs sold in our country comes from abroad and that nearly 60 percent of all serious crimes are drug-related.

Despite the fact that tourism contributes $12 billion to our economy, international travelers continue to face maddeningly long lines at our borders. At El Paso, Texas, cars wait for an hour to enter the U.S., and at John F. Kennedy International Airport in New York, an international arrivals facility which can accommodate 38 Customs lanes and 76 Inspectors during peak hours, has half that many actually serving the public.

I'd like to read a brief passage from a letter our New York Chapter recently wrote to Customs management officials:

> On Tuesday, October 25, 1983, 12 inspectors faced 1,447 passengers on one side of the Pam Am terminal. The passengers all arrived within 25 minutes. Once again, inspectors refused to risk generating a riot and succeeded by ignoring their jobs.

For several years, this Subcommittee has pressed Customs to implement improved inspectional systems to speed clearance. But the bottom line is that more inspectors are needed, and no amount of procedural efficiencies will change that.

The same holds true for recent efforts to control commercial fraud Last year, witnesses from the steel, auto parts, electronics, and textile industries testified before Congress that they are suffering significant losses from counterfeit imports and the evasion of anti-dumping and countervailing duty laws. At the same time, Customs has cut back inspections of cargo to well below three percent and now requires import specialists to bypass, at a minimum, 50 percent of the entry documents they receive. In some locations, import specialists are reviewing less than 50 percent of the merchandise entries.

Whether you call yourself a free trader or a protectionist, or something in between, there is no excuse for not enforcing existing trade and tariff laws. Mr. Chairman, I'd like to take this opportunity to applaud the efforts of this Committee in focusing attention on the sorry state of Customs' commercial fraud operations. As you are aware, on February 29, the Senate adopted an amendment to the Export Administration Act to provide an additional $12 million to Customs to combat commercial fraud, and to restrict Customs from taking personnel actions which would undermine its trade operations. We wholeheartedly endorse this amendment and urge the subcommittee to include a similar provision in the FY 1985 authorization bill.

Before I conclude, I would like to touch upon two additional issues. First, we urge you to oppose any new attempt to slash overtime pay for Customs inspectors under the Trade Act of 1911. This longstanding commitment is rooted in the hazardous, stressful and physically and emotionally demanding nature of this occupation, as well as a desire to provide adequate incentives to counterbalance the long and irregular hours.

And second, we urge you to reject the recent recommendation of the President's Cabinet Council on Management and Administration to transfer Customs' primary inspection functions at land border ports to the Immigration and Naturalization Service. We oppose the plan for the following reasons: It would undermine narcotics interdiction by fragmenting responsibility between two agencies. It would also require INS to take on responsibility for enforcing the requirements of 40 different agencies, a mission for which it has no experience and is ill-prepared. In addition, it would require the importing community at all but the largest ports to deal with INS, as well as Customs, in processing commercial cargo. Finally, by the Administration's own admission, it would achieve zero budgetary savings, and would probably cost the government money by retaining two separate enforcement support systems.

We do believe, however, that there should be a single agency charged with border inspections. Customs is the nation's principle border management agency, enforcing over 400 laws and regulations of 40 other agencies. It has more inspectors than INS at all ports of entry, and is now performing 60 percent of all immigration primary inspections.

Consolidation within Customs is the least disruptive and easiest to implement, because it maintains continuity with other federal agencies whose border interest Customs represents; and it does not require carriers, port operators, and the business community to deal with a new agency.

Mr. Chairman, this concludes my remarks. My colleague and I would be happy to answer any questions you may have at this time.

TABLE 1

INTERNAL REVENUE SERVICE FY 1985 BUDGET REQUEST: PROGRAM INCREASES, UNSPECIFIED PRODUCTIVITY SAVINGS, AND PROGRAM DECREASES

	Program Increases[1] (Staff-Years)	Productivity Savings Unspecified As To Source[2] (Staff-Years)	Program Decreases[3] (Staff-Years)	Net Program Increases (Staff-Years)
Processing Tax Returns	+1,758	-1,628	-384[a]	- 254
Examinations & Appeals	+1,380	- 64	-299	+1,017
Investigations, Collection & Taxpayer Service	+ 417	- 172	-239	+ 6
TOTAL	+3,555	-1,864	-922	+ 769

[1] For ADP and systems modernization, containing the tax gap, implementing the Interest and Dividends Tax Compliance Act of 1983, and maintaining tax administration to handle workload growth.

[2] Total claimed productivity savings are 3,699 staff-years. (See Table 2).

[3] Programs to be reduced are unspecified.

[a] Includes transfer of 140 staff-years to Taxpayer Service.

TABLE 2

INTERNAL REVENUE SERVICE FY 1985 BUDGET REQUEST: TOTAL PRODUCTIVITY SAVINGS AND AMOUNT FOR WHICH SOURCE OF SAVINGS IS NOT SPECIFIED IN THE BUDGET

	Total Claimed Productivity Savings[1] (Staff-Years)	Productivity Savings Unspecified As to Source (Staff-Years)
Processing Tax Returns	2,481	1,628
Examination & Appeals	119	64
Investigation, Collection & Taxpayer Service	1,099	172
TOTAL	3,699	1,864

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[1] The principal specified savings are due to microfilm replacement system (346 staff-years) and use of optical character recognition (OCR) equipment (360 staff-years) in service centers, and introduction of auto-collect (842 staff-years).

TABLE 3

NTEU RECOMMENDATION FOR INCREASING REVENUE AND NET REVENUE GENERATED 'FY 1985-1989

	Recommended Additions For FY 1985 (Staff-Years)	Recommended Additions For FY 1985 Cost ($000)	Additional Revenue Assessed and Collected FY 85 (Millions)	Additional Revenue Assessed and Collected FY 85-89 (Millions)	Cost FY 85-89 (Millions)	Net Increase In Revenue FY 85-89 (Millions)
Processing Tax Returns[1]	+1,100	22,200	111	555	111	444
Examination & Appeals[2]	+2,100[a]	61,626	1,000	5,000	308	4,692
Collection[3]	+ 500	12,872	243	1,215	65	1,150
Taxpayer Service[4]	+ 200	4,865	-0-	-0-	24	- 24
TOTAL	+3,900	101,563	1,354	6,770	508	6,262

[a] 2,000 Examination positions costing $57,250,000 and 100 Appeals positions costing $4,376,000.

[1] NTEU addition would permit raising service center contacts with underreporters and non-filers under the Information Returns program from 4.8 million to approximately 6.8 million contacts, or from 33 percent to approximately 40 percent of total leads generated. Additional revenue would result from following up these additional leads in both service centers and district offices.

[2] NTEU addition would permit 2,866,000 Examinations and contacts, 183,000 more than in the Administration's program. This would maintain an overall Examination coverage of 1.60%, the same level as FY '83, instead of 1.42% under the Administration's program. The increase in Appeals would permit more emphasis on tax shelter cases and reduction of Appeals' backlog.

[3] NTEU addition would permit closing 3,664,000 taxpayer delinquent accounts, 131,000 more than the Administration's program. This would result in collecting $6,807 million, an increase of $243 million. The backlog in TDA accounts would be reduced from 1,953,000 to 1,822,000, and revenue in the active inventory would fall from $7.5 billion under the Administration's program to $7.3 billion under the NTEU recommendation.

[4] NTEU addition would permit assisting 50 million taxpayers, 2.4 million more than the Administration's program, or 2 out of 3 taxpayers requesting assistance.

[5] Revenue estimates for Examination and Collection are based on data in the FY 1985 budget request. Revenue estimate for processing tax returns is based on an average of $5 returned for each $1 spent in the Information Returns program.

TABLE 4

INTERNAL REVENUE SERVICE FY 1985 BUDGET REQUEST AND NTEU RECOMMENDATION

	FY 1984 Appropriation (Continuing Resolution)		FY 1985 Budget Request		Increase (+) or Decrease (-)		NTEU Recommended Addition For Increased Revenue		NTEU Recommended Appropriation For FY 1985	
	Amount ($000)	Avg. Psns.	Amount ($000)	Avg. Psns.	Amount ($000)	Avg. Psns.	Amount ($000)	Avg. Psns.	Amount ($000)	Avg. Psns.
Salaries & Expenses	101,494	2,271	104,687	2,243	+ 3,193	- 28	-0-	-0-	104,687	2,243
Processing Tax Returns	942,150	24,297	1,002,457	23,187	+ 60,307	-1,110	+ 22,200	+1,100	1,024,657	24,287
Examinations & Appeals	1,258,310	34,393	1,357,073	35,354	+ 98,763	+ 961	+ 61,626	+2,100	1,418,699	37,454
Investigation, Collection & Taxpayer Service	1,023,676	28,321	1,067,642	27,595	+ 43,966	- 726	+ 17,737	+ 700	1,085,379	28,295
TOTAL	3,325,630	89,282	3,531,859	88,379	+206,229	- 903	+ 101,563	+3,900	3,633,422	92,279

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[1] For details of NTEU's plan for increasing revenue, see Table 2.

Senator ABDNOR. Well, thank you, Mr. Tobias. We are running out of time; we have to move along to get through this long list of witnesses. But I take it you do not think that automatic processing has done much for efficiency and picking up some of the extra dollars.

I do not condemn you for what you say, but it would seem to me that you would admit a little bit that we are streamlining and getting some efficiency. I totally agree that more manpower will bring even more dollars, but I do not think we can say they are going backwards.

I have to believe the record shows they are doing a pretty good job. We have been looking over their equipment and going through their procedures and I think it is amazing. There are things here that no individual, one guy, could do that a machine does.

Now, I understand where you are coming from and your great concern, but I would like to give credit where credit is due and I think there is some credit for what is going on over there. I do not think it is quite as bad as the picture you make of it.

Mr. TOBIAS. Well, Mr. Chairman, I certainly am not going to say that the machines that have been introduced by the U.S. Customs Service have not been effective. But what I am going to say is you cannot solve the problem of the increased cargo, you cannot solve the problem of the increased number of people who are coming to our shores, solely with automation.

And you cannot achieve the kinds of goals that the U.S. Customs Service asserts that it wants to achieve——

Senator ABDNOR. Well, let me back up. I am talking about IRS.

Mr. TOBIAS. Oh, you want to talk about IRS? I thought you were talking about Customs.

Senator ABDNOR. No; I was talking about efficiency and the dollars collected. In Customs, we are very concerned about the same things you are.

Mr. TOBIAS. Next page, the Internal Revenue Service, OK.

Senator ABDNOR. Yes.

Mr. TOBIAS. Certainly, the Internal Revenue Service has made giant strides in processing the incredible amounts of paperwork that are now flowing into that agency. Just in the area of the underreporter program, the fact that next year all of those 990 returns that are filed are now going to be matched with a taxpayer's return is an incredible accomplishment.

But I would say that once that individual has been identified as owing money to Uncle Sam, we need a person to follow up to collect on those people who do not send their money in automatically, and that is one of the areas where we urge more people be assigned to follow up and make more contacts.

We know that if we have more people doing the job, we are going to collect more money. So it is really the confluence of the machinery and the people that is going to yield more revenue to the U.S. Government.

Senator ABDNOR. OK, that is good.

Mr. TOBIAS. Thank you.

Senator ABDNOR. I have not made a decision on how I feel about the consolidation of these agencies at the border. The first time I ever inspected them, I thought how ridiculous it was to see two different groups sitting side by side. I mean, I wondered at the time, and I still do.

I am not suggesting that we get rid of manpower, but it would seem to me they could be more efficient and get more for each individual's time if it were coordinated in some way or consolidated.

I assume we will pay close attention to what we hear on this, and I have listened to some already. I know there are those who feel that one agency is a lot more efficient than the other agency and better trained. I do not know.

Mr. TOBIAS. Mr. Chairman, I would only ask you to keep one figure in mind. I know that you are very concerned about the expenditures of the Federal Government and I would like you to just keep in mind the figure $37 million.

Now, the studies that have been conducted show that if the U.S. Customs Service is the primary service at both land and sea ports, the Government will save $37 million. Now, the proposal that the administration has put forward says that it will save nothing and, in fact, it will cost money.

So just on the basis of the cost savings alone and the increased efficiency, there can be no question that the way it ought to occur is that the U.S. Customs Service be the primary agency everywhere.

Senator ABDNOR. Well, it is fine if we can save money, but if we saved any we could put it right back in because that is an area that I do not think we are doing enough in anyway. The thought was going through my mind that if we could get some efficiency out of it and do a better job, it would be fine. I was thinking more of that than all these dollars we are talking about saving.

But we are certainly going to pay close attention to it, and we do thank you for your appearance here today. I had better move us along or we will never get done.

Mr. TOBIAS. Thank you very much.

Senator ABDNOR. Thank you, Mr. Tobias.

Our next witness is John Chwat of the National Association of Tobacco Distributors. Mr. Chwat, it is good to have you with us today.

NATIONAL ASSOCIATION OF TOBACCO DISTRIBUTORS

STATEMENT OF JOHN S. CHWAT, WASHINGTON REPRESENTATIVE

Mr. CHWAT. It is good to see you again, Mr. Chairman. My name is John Chwat of Chwat/Weigend Associates, and I appear before you today representing the National Association of Tobacco Distributors in my capacity as the association's Washington representative.

The association represents over 570 corporate wholesaler-distributor members, representing over 740 distribution outlets, 230 manufacturer/supplier associates, whose 12,000 salesmen canvass and supply 1.5 million retail outlets selling tobacco products across the United States. It is estimated that the members of the association's trade and industry market goods with an annual wholesale value of over $12.4 billion.

Representatives of the association have appeared before you in prior years and I apologize for them not being here. However, they are holding a convention in Dallas, Tex., to which I am going in about 2 hours. So I apologize for them not being here.

There is no other national trade association, Mr. Chairman, with a membership more directly affected by the decisions, regulations, and enforcement of ATF than is NATD. For the first time, I would think, in history the NATD is supportive of the administration's fiscal 1985 appropriation request for the ATF funding levels.

Specifically, the association supports the recommended budget for ATF tobacco law enforcement functions as contained in the Treasury justification for appropriations. The ATF has recommended funding this function at the same level as last fiscal year with no changes in the numbers of positions, and the NATD urges you and the subcommittee to approve the $4.1 million requested for ATF tobacco law enforcement functions.

We note that this funding request on the part of the administration is a total reversal from that presented to the subcommitteee last year. As you will recall, the ATF recommended in fiscal year 1984 the elimination of the cigarette smuggling program, for a savings of $4.1 million.

The ATF went on to say at that time that the Bureau's enforcement of the cigarette smuggling program will be eliminated in fiscal year 1984. ATF, they said, plans to return complete control of cigarette enforcement back to the States and systematically withdraw all Federal resources for the program.

The NATD believed the ATF was wrong in eliminating the cigarette contraband program, and today is pleased that further attempts by the administration to reduce or eliminate this activity have ceased.

However, the NATD is mindful of this subcommitteee's concerns, expressed in your fiscal year 1984 appropriations report, regarding enforcement of the Cigarette Contraband Act. You stated in your report that the subcommitteee "takes this opportunity to notify States it will no longer fund this program after fiscal year 1984, and that steps should be taken to make proper application to the respective programs."

NATD recommends that the members of the subcommitteee approve the continued funding of the ATF tobacco law enforcement program for several reasons. The first is that the basic cause of cigarette smuggling is the disparity in State and local cigarette excise tax rates which produces incentive for smuggling and bootlegging.

I am going to divert from my prepared testimony to say that on pages 3 and 4 of the testimony we use the example of, on a pack of cigarettes in Chicago, a bootlegger would receive a profit of 29 cents for every pack of cigarettes which is purchased in Kentucky and trucked into Chicago.

Estimates by our wholesale distributors, if you take the cartons and the cases and multiply them out to a semitrailer load of smuggled cigarettes, would equal about a $139,200 profit for that semiload.

Bootlegging is not the only type of cigarette tax evasion. For the New York members of the subcommitteee, there were counterfeited cigarette tax stamps, almost 1 million dollars' worth in New York State alone, that were confiscated by ATF in the past year.

Using some more figuring, in the Chicago area again, illegal profits for a semitruckload, including the counterfeit cigarette stamps, would yield about $153,600, for a total of about a $500,000 profit to a bootlegger for just one semitruckload of cigarettes.

Therefore, it is easy to see that the incentives are strong for criminal elements to enter this lucrative area. The problem is larger than a cigarette problem; it is a problem of crime prevention.

Another key reason for continued funding of the cigarette contraband program relates to an important study now being undertaken by the Advisory Committee on Intergovernmental Relations, the ACIR, on cigarette contraband revenue losses.

No one today has current estimates, including the ATF, of revenue losses to the States due to the cigarette contraband problem. We appreciated the subcommittee's assistance last year in inserting language that directed the ACIR to direct a cigarette tax law study.

We have given to the subcommittee certain correspondence as the result of a meeting that was held earlier this month at the ACIR, in which we were a little bit concerned about the direction of the report that would come out. And we will work with the subcommittee during the year to keep it informed on the ACIR cigarette contraband study.

We estimate that the study will come out somewhere in December or early February after the ACIR reviews its findings.

Finally, the NATD would like to request the subcommittee to conduct field hearings, perhaps early next year, to determine the extent of cigarette contraband activities at a grassroots level. We suggest perhaps one in Chicago or New York which could review the organized crime smuggling aspects, and a hearing in the Far West, ineither Arizona or South Dakota, which could review some of the State revenue losses attributable to Indian reservation smokeshops.

Incidentally, Mr. Chairman, we are working with the Presidential Advisory Commission on Indian Reservation Economies, which has recently conducted a field hearing in Rapid City, S. Dak. We had corporate wholesale representatives there to discuss a model Indian rebate law that could perhaps suggest some good, cooperative, working private enterprise relationships between Indian reservation smokeshops and our wholesale distributors.

Senator ABDNOR. What was the response of the tribes? Did you have any witnesses?

Mr. CHWAT. Well, the Commission has about eight different hearings scheduled. All the witnesses were Indian witnesses. We were the only private, corporate sector representatives there and their response was very good. We will have a witness in their Window Rock, Ariz., hearing and, in May, in Washington, D.C. Their report will be delivered to the President in November.

Senator ABDNOR. Well, we will be happy to see your results and your report.

Mr. CHWAT. We will keep you totally informed.

The circumstances which foster cigarette tax evasion schemes have not been eliminated, but they have been enhanced, and hence there is a greater motive for the resurgence of this activity.

We believe a Federal presence is a deterrent to organized crime, especially the Mafia, and an assistance to State enforcement authorities and the only means to control the problem which is, by definition, an interstate problem.

PREPARED STATEMENT

I would like to insert a statement which we submitted to the subcommittee in total, and I would be happy to answer any questions you might have.

[The statement follows:]

STATEMENT OF JOHN CHWAT

Mr. Chairman and Members of the Subcommittee, my name is John Chwat of Chwat/Weigend Associates, and accompanying me is my partner, Robert Weigend. We appear before you today representing the National Association of Tobacco Distributors (NATD), in our capacity as the Association's Washington representatives. The National Association of Tobacco Distributors represents over 570 corporate wholesaler-distributor members representing over 740 distribution outlets and 230 manufacturer/supplier associates whose 12,000 salesmen canvass and supply almost 1.5 million retail outlets selling tobacco products across the United States. It is estimated that members of the Association's trade and industry market goods with an annual wholesale value of over $12.4 billion dollars.

Representatives of the association have appeared before your Subcommittee in prior years to present their concerns regarding appropriations for the Treasury Department and, in particular, the impact which the funding level for the Bureau of Alcohol, Tobacco and Firearms (ATF) has on their industry. There is no other national trade association with a membership more directly affected by the decisions, regulations and enforcement functions of the tobacco part of the ATF, than the NATD.

Mr. Chairman, for the first time in many years the NATD is supportive of the administration's Fiscal Year 1985 appropriations request for ATF funding levels. Specifically, the association supports the recommended budget for ATF tobacco law enforcement functions as contained in the Department or the Treasury Fiscal Year 1985 Justification for Appropriations, submitted to this Subcommittee for consideration. The ATF has recommended funding this function at the same level as last fiscal year, with no changes in the number of positions assigned to this activity. The NATD urges this Subcommittee to approve the $4.1 million requested for ATF tobacco law enforcement functions in Fiscal Year 1985.

The NATD notes that this funding request on the part of the administration is a total reversal from that presented to the Subcommittee last year. As you will recall, the ATF recommended in Fiscal Year 1984 Budget presentations, the elimination of the Cigarette Smuggling Program for a "savings" of $4.1 million dollars. The ATF went on to say, at that time, that

> "The Bureau's enforcement of the Cigarette Smuggling Program will be eliminated in FY 1984. ATF plans to return complete control of cigarette enforcement back to the states and systematically withdraw all Federal resources from this program."

The NATD believed the ATF was wrong in eliminating the cigarette contraband program and today, is pleased that further attempts by the administration to reduce or eliminate this activity have ceased.

However, the NATD is mindful of this Subcommittee's concerns, expressed in your Fiscal Year 1984 Appropriations Report No. (98-186), regarding the enforcement of the Cigarette Contraband Act. That report states that the Subcommittee "takes this opportunity to notify states it will no longer fund this program after Fiscal Year 1984, and that steps should be taken to make proper application to their respective programs." The NATD recommends that the Members of this Subcommittee approve the continued funding of the ATF tobacco law enforcement program, for several important reasons:

The basic cause of cigarette smuggling is the disparity in state and local cigarette excise tax rates which produce the incentive for smuggling and bootlegging. These excise taxes continue to rise on a state and local level. For example, the price for a pack of cigarettes in Chicago includes 16 cents federal tax, 12 cents state tax, 15 cents city tax and 5 cents county tax, for a total of 48 cents in excise taxes while the price of a pack of cigarettes from the neighboring State of Kentucky includes only 16 cents federal tax and a mere 3 cents state tax for a total of 19 cents in excise taxes. A bootlegger would receive a profit of 29 cents for every pack of cigarettes which was purchased in Kentucky, trucked to Chicago and sold at the same price as similar packs sold through legitimate channels. Thus, a bootlegger makes $2.90 per carton (10 packs per carton), $174 per case (60 cartons in a case) or $139,200 per semi-trailer load of smuggled cigarettes. This incentive for smuggling exists in every state which high cigarette excise taxes.

However, bootlegging is not the only type of cigarette tax evasion scheme. There has been an increase in the incentive for counterfeiting cigarette tax stamps, for such a practice, using the Chicago-area rates again as an example, could yield $153,600 in illegal profits per semi-truckload. Likewise, the incentive to steal cigarettes and hijack trucks which haul cigarettes has also increased due to higher federal, state and local excise taxes. Since the total value of stolen cigarettes have increased (using the Chicago-area again as an example) to about $380,160 per semi-truckload ($7.92 per carton). The loss of one semi-truckload of cigarettes, if those cigarettes are stamped with tax stamps, represents about $519,360 profit to a bootlegger.

Therefore, it is easy to see that the incentives are strong for criminal elements to enter this lucrative area. This problem is larger than a cigarette problem; it is a problem of crime prevention. The legitimate cigarette distributors may feel the impact of this problem more directly than the general public, given the fact that some distributors are forced out of business by the illegal distribution sources. Nevertheless, all members of society suffer--from the innocent victim of an armed hijacking to the taxpayers who must pay higher taxes to compensate for the revenue lost through illegal schemes.

In May, 1977, which was prior to passage of the Cigarette Contraband Act, Time Magazine published an in-depth issue concerning organized crime that showed cigarette bootlegging as one of the top six rackets, producing gross revenues of $1.5 billion for organized crime. Mr. Chairman, we cannot allow this nation to return to the 1970s by removing funding from ATF tobacco enforcement programs.

Another key reason for continued funding of the Cigarette Contraband Program relates to an important study now being undertaken by the Advisory Committee on Intergovermental Relations (ACIR) on cigarette contraband revenue losses. No one today has current estimates of revenue losses to states due to the cigarette contraband problem. Thus, last year, the NATD supported the following language which was included in both House and Senate Appropriations Reports, directing the Commission to

> "Develop current estimates of state cigarette tax losses particularly those losses attributable to commercial interstate smuggling and recommend what actions the federal or state governments can take to further reduce these losses."

We believe that this report to the Congress will be instrumental in determining the actual extent of cigarette contraband tax losses throughout the Nation. The Advisory Commission on Intergovermental Relations concluded that in 1975 there was about $391 million in revenue loss to State and local governments in high-cigarette-excise-tax states due to cigarette bootlegging. Ten years later, the revenue losses could be substantially higher, depending on what results the current ACIR study reveals. Aside from cigarette bootlegging, there are other types of contraband resulting in tax losses that can be detailed in the ACIR study, including mail order fraud, and Indian and military cigarette excise tax privilege abuses. The Subcommittee might wish to review the preliminary results of the ACIR study, to be published later this year.

Finally, the NATD would like to request the Subcommittee to conduct field hearings at several sites around the country, later this year or early next year, to determine the extent of cigarette contraband activities at the grass-roots level. A hearing in Chicago or New York could review organized cigarette smuggling efforts and a far West hearing, in either Arizona or South Dakota, could review some of the state revenue losses attributable to Indian reservation smokeshops. The Association would like to work with the Subcommittee in pursuing this goal.

The circumstances which foster cigarette tax evasion schemes have not been eliminated, but rather have been enhanced, and hense there is a greater motive for the resurgence of this activity. The only solution is a continued federal presence in the tobacco enforcement area. The federal presence is a deterrent to organized crime, an assistance to state enforcement authorities, and the only means to control a problem which is by definition an interstate problem. Therefore, we urge continued appropriations for the Bureau of Alcohol, Tobacco and Firearms which will allow that agency to fulfill its important responsibilities in the enforcement area.

Senator ABDNOR. Thank you, Mr. Chwat. What was the response of your industry with the report last year when we said we take this opportunity to notify States that we will no longer fund the program?

Mr. CHWAT. The NATD is probably one of the only trade associations that was deeply and very, very concerned about the lack of Federal presence. At their board meetings, all of the wholesale distributors were hopeful that the subcommittee could present to the Members of the Senate and the House some documentary evidence that cigarette smuggling is a loss to State revenue and to Federal revenue.

Senator ABDNOR. I felt that the States could do a little better on it, too. When you are fighting for dollars, you know, this committee is really struggling. You know, we saved the ATF once. It is not as though we do not believe in this very thing. They were going to cut it out and we prevented it.

It is interesting to note this big reversal on the part of the administration.

Mr. CHWAT. Well, Mr. Chairman, we had an ATF agent from New York at our board meeting in Chicago and he told us of all the problems, and I would be happy to share his name with the staff.

Senator ABDNOR. Fine; that would be great.

I just checked with the staff here and we have not had any word from the States on this at all. Are they balking at this, knowing that they are going to be——

Mr. CHWAT. I would love to represent the NTTA. However, I do not represent the tobacco tax administrators. The information that we have is they are satisfied with the appropriation request.

We do have a little bit of a problem in trying to define for the tax administrators the cigarette smuggling revenue tax loss. Therefore, our association is trying to use other vehicles in the Government—ACIR, the Presidential Commission on Organized Crime, the Presidential Commission on Indian Reservation Economies and other entities—to convince the Federal Government, and especially the Congress, that there is a revenue tax loss.

Everyone that we have talked to on a Federal level does not know the extent of the loss, and the tax administrators that our members talk to, especially in Chicago and New York, know there is a loss, but nowhere is it statistically defined.

Senator ABDNOR. I guess it is just interesting to me to know that we had to fight to do what we have been doing, and suddenly to find the budget calling for the very thing we fought them with before is a little unusual. But we will look into the situation very carefully.

Mr. CHWAT. I guess you could say, Mr. Chairman, be thankful for small favors from the ATF.

Senator ABDNOR. Thank you very much.

Mr. CHWAT. Thank you, Mr. Chairman.

Senator ABDNOR. Our next witness is from the American Association of Retired Persons, Mr. James Hacking, assistant legislative counsel. Mr. Hacking, it is good to have you with us. I do not know if you were here when we opened, but I mentioned that we have a long list of witnesses. We have been allowing about 10 minutes per witness so we can get done today.

AMERICAN ASSOCIATION OF RETIRED PERSONS

STATEMENT OF DAVID AFFELDT, LEGISLATIVE CONSULTANT

ACCOMPANIED BY:

ADELLE MILONE, NATIONAL COORDINATOR, TAX-AIDE PROGRAM
WILLIAM CANUP, SENIOR SPECIALIST, TAX-AIDE PROGRAM

Mr. AFFELDT. Senator Abdnor, my name is David Affeldt, A-f-f-e-l-d-t. I am substituting for James Hacking. I am a legislative consultant for the American Association of Retired Persons.

On my left is Adelle, A-d-e-l-l-e, M-i-l-o-n-e. She is the national coordinator for AARP's tax-aide program. And on my right is William Canup, C-a-n-u-p. He is a senior specialist for AARP's tax-aide program.

AARP welcomes the opportunity to testify before this subcommittee. Our remarks will be brief and will focus on funding for the tax counseling for the elderly program for fiscal year 1985.

At the outset, the association wishes to commend this subcommittee for its strong support in the past, and particularly the decision to fund TCE at $2 million for fiscal year 1984. This funding will alleviate the need to return to the subcommittee for additional funding to reimburse program volunteers for their out-of-pocket expenses in the tax counseling season presently underway.

The administration's budget for fiscal year 1985 represented a positive step when it requested $2 million for TCE. However, this request does present a problem for us in that it makes a request for $700,000 to pay IRS staff for administering TCE for next year.

Currently, the administrative costs are a little bit less than $300,000. The increase in administration would amputate a significant part of the funding for program operations, making it necessary either to seek a supplemental appropriation later or to curtail the program's operations at some point down the road in fiscal year 1985. Either course should be avoided, we strongly believe.

We request the subcommittee to assure that TCE is funded at least at $2 million, as requested by the administration, and that the present allocation of funds for program operations and administrative costs be maintained.

From the legislative history, it is clear that the Congress intended the funding, as in fiscal year 1984, to provide additional services for taxpayers rather than a backdoor mechanism for IRS administration of the program.

Assuming that the subcommittee should determine that additional IRS staff is needed, we believe that this cost should be included elsewhere in the IRS budget and not in the special line item for TCE and other taxpayer-assistant services.

As a result of the $2 million appropriation passed by Congress for fiscal year 1984, the association received a total contractual arrangement of $1.6 million in round numbers. This money will be expended for increased program needs, as reflected in current tax counseling season activities, and nearly all of the funding goes to defray the out-of-pocket expenses of tax-aide/TCE volunteer coordinators, instructors, and counselors.

It is evident that the $1.6 million allocated for the current year is considerably more than the amount that would remain in the TCE account if $700,000 in IRS staff costs were taken from it in fiscal year 1985. This would reduce, in effect, program operations to about $1.3 million.

The administration proposal not only affects the AARP tax-aide program, but also the score or more of other TCE sponsors. During the past 3 years, Congress has enacted major laws that have greatly changed the tax rules and affected the taxability of the incomes of aged and aging Americans.

Many of the elderly are still not fully aware of these tax changes and how they affect their own tax situations; for example, the change in the medical deduction. Previously, older taxpayers as well as other taxpayers were able to deduct one-half of their medical insurance premiums up to $150. Now, of course, the insurance premium is added in with other allowable medical and dental expenses, and then subject to the 5-percent threshold before it can be deducted.

They are coming to tax-aide/TCE sites in large numbers in the current tax counseling season to obtain guidance in understanding the tax changes and to have their income tax returns prepared free of charge.

The growing need for this service is indicated by the fact that the tax-aide/TCE program, now in its 16th year, has virtually become institutionalized as a local service in communities coast to coast. There is an increasing demand from the elderly, the handicapped, and shut-ins for this valuable assistance which is performed by volunteer counselors whose motivation is the service that they can perform for their fellow citizens.

The history of tax-aide demonstrates that volunteer tax consultants can improve taxpayer compliance. This not only assures that taxpayers pay what is lawfully due the Government, but it also reduces IRS administrative costs. I think that is a very important point.

The former stands in contrast to the loss of billions and billions of dollars each year from taxpayers who cheat by failing to report their income. TCE volunteers can provide the same type of assistance as certain IRS employees and at a fraction of the cost of hiring additional IRS staff.

TCE is needed now more than ever because the reductions in IRS taxpayer assistance staff in recent years have not all been replaced.

TCE serves another valuable service because IRS has repeatedly stressed that no taxpayer should pay more than is legally required. Experience shows that many elderly persons overpay their taxes each year or file when not required to do so, for a variety of reasons.

Some are confused by the tax forms; others are unaware of available deductions, credits, and exemptions which were meant to benefit older Americans. The tax-aide/TCE program assists all categories of inquirers, including those who need to file amended returns to claim deductions that were overlooked or to pay additional tax on income that was not reported.

This service does not adversely affect the business of professional preparers, and we want to emphasize that point. The vast majority of tax-aide clients have moderate or limited incomes. They are thus unable to afford the services of professional preparers for their returns and are dependent upon the free aspect of the service. Those who do have complicated tax situations are advised to seek professional tax help in preparing their returns.

In recent years, the IRS offices have referred many taxpayers to tax-aide sites to receive assistance not always available at the IRS office. This is due to the limited capabilities of some IRS offices to handle public inquiries because of budgetary constraints.

In addition, tax-aide volunteer instructors cooperate throughout the country with IRS trainers to insure more intensive and comprehensive instruction of the tax-aide volunteer counselors. As a consequence, our counselors receive more in-depth instruction and frequently a better knowledge of the tax code. Accuracy and efficiency in handling tax inquiries have been the result.

In conclusion, we reaffirm our support for the full funding of $2 million for TCE in fiscal year 1985. However, we do not want additional funds for administrative costs to be siphoned off from the program.

If the subcommittee should decide that additional administrative costs are desirable for IRS operations, that is fine, but we recommend that they be placed elsewhere in the budget rather than from TCE.

TCE, in summary, has been beneficial for our Nation's communities, the elderly and the IRS. It has increased taxpayer accuracy and compliance. It has provided specialized services for groups traditionally underserved by the IRS, including minorities, the homebound, and the rural aged. And it has developed in our people a spirit of voluntarism which increasingly characterizes the attitude of the elderly toward their peers.

We believe that the spirit of voluntarism should not be curtailed in 1984, which is officially designated as the year of the volunteer.

PREPARED STATEMENT

This concludes our testimony and we will be glad to respond to any questions.

[The statement follows:]

STATEMENT OF DAVID AFFELDT

The American Association of Retired Persons welcomes the opportunity to testify before the Treasury, Postal Service and General Government Appropriations Subcommittee.

Our remarks will be brief and will focus on funding for the Tax Counseling for the Elderly (TCE) program for 1985.

At the outset, the Association wishes to commend the Subcommittee for its strong support in the past, and particularly the decision to fund TCE at $2 million for FY 1984. This funding will alleviate the need to return to the Subcommittee for additional funding to reimburse program volunteers for their out-of-pocket expenses in the tax counseling season presently underway.

A step was made in the right direction in the Administration's budget proposal which provided the same $2 million figure for TCE for FY 1985. Standing without restrictions, this request would have provided the needed funding for the program for the entire FY 1985. However, the Administration wants to use $700,000 to pay IRS staff for administering TCE next year.

This measure would amputate a significant part of the funding for program operations, making it necessary either (a) to seek a supplemental appropriation later, or (b) to curtail the TCE program's operations in FY 1985. Either course should be avoided, in our opinion.

We request the Subcommittee to assure that TCE is funded at least at $2 million, and that the present allocation of funds for program operations and administrative costs is maintained.

From the legislative history, it is clear that Congress intended the funding, as in FY 1984, to provide additional services for elderly taxpayers, rather than a backdoor financing mechanism for IRS administration of the program. Assuming that the Subcommittee should determine that additional IRS staff funds are needed, we believe that this cost should be included elsewhere in the IRS budget and not in the special line item for TCE and other taxpayer assistance services.

As a result of the $2 million appropriation passed by Congress for TCE in FY 1984, the Association received a total contractual arrangement of $1.633 million. This money will be expended for increased program needs as reflected in current tax counseling season activities. Nearly all of the funding goes to defray the out-of-pocket expenses of Tax-Aide/TCE volunteer coordinators, instructors and counselors. It is evident that the $1.633 million allocation for the current year is considerably more than the amount that would remain in the TCE account if $700,000 IRS staff costs were taken from it in FY 1985. The Administration proposal not only affects the A.A.R.P. Tax-Aide program, but also the other TCE sponsors.

During the past three years, Congress has enacted major laws that have greatly changed the tax rules and affected the taxability of the incomes of aged and aging Americans. Many of the elderly are still not fully cognizant of these tax changes and how they affect their own tax situations. They are coming to Tax-Aide/TCE sites in large numbers in the current tax counseling season (February 1 - April 16) to obtain guidance in understanding the tax changes and to have their income tax forms prepared free of charge. The growing need for this service is indicated by the fact that the Tax-Aide/TCE program, now in its 16th year, has virtually become institutionalized as a local service in communities coast-to-coast. There is an increasing demand from the elderly, the handicapped and shut-ins for this valuable assistance, which is performed by volunteer counselors whose motivation is the service that they can perform for their fellow citizens.

The history of Tax-Aide demonstrates that volunteer tax consultants can improve taxpayer compliance. This not only assures that taxpayers pay what is lawfully due the government, but it also reduces IRS' administrative costs. The former stands in contrast to the loss of billions of dollars each year from taxpayers who cheat. The latter results because TCE volunteers can provide the same type of assistance as certain IRS employees, and at a fraction of the cost of hiring additional IRS staff. TCE is needed now more than ever because the reductions in IRS taxpayer assistance staff in recent years have not all been replaced.

TCE serves another valuable service because IRS has repeatedly stressed that no taxpayer should pay more than is legally required. Experience shows that many elderly persons overpay their taxes each year or file when not required to do so. Some are confused by the tax forms. Others are unaware of available deductions, credits and exemptions which were meant to benefit the elderly. The Tax-Aide/TCE program assists all catagories of inquirers, including those who need to file amended returns to claim deductions that were overlooked or to pay additional tax on income that was not reported.

This service does not adversely affect the business of professional preparers. The vast majority of Tax-Aide clients have moderate or limited incomes. They are thus unable to afford the services of professional preparers for their routine returns, and are dependent upon the free aspect of the service. Those who do have complicated tax situations are advised to seek professional tax help in preparing their returns.

In recent years the IRS offices have referred numbers of taxpayers to the Tax-Aide sites to receive assistance not always available at the IRS offices. This is due to the limited capabilities of some IRS offices to handle public inquiries because of budgetary constraints.

In addition, Tax-Aide volunteer instructors cooperate throughout the country with IRS trainers to insure more intensive and comprehensive instruction of the Tax-Aide volunteer counselors. As a consequence, our counselors receive more in-depth instruction and frequently a better knowledge of the tax code. Accuracy and efficiency in handling tax inquiries have been the result.

CONCLUSION

In conclusion, we reaffirm our support for the full funding of $2 million for TCE in FY 1985. IRS increased administrative costs should not be siphoned from the TCE appropriation.

Without this full funding it will soon be necessary again to approach the Subcommittee to request additional funds to permit the Tax-Aide program to fulfill its obligations and promises to the volunteers who are incurring expenses in training and counseling activities.

If full funding is not made available, it will be necessary to curtail the scope and activities of the Tax-Aide/TCE program at some point during the year. The shortfall in funding for FY 1985 would be approximately 25% of the funds needed (and of those received for FY 1984).

Such a curtailment would drastically affect the program's organization, scope and outreach.

TCE has been beneficial for our nation's communities, the elderly and the IRS.

It has increased taxpayer accuracy and compliance.

It has provided specialized services for groups traditionally underserved by the IRS including minorities, the homebound and the rural aged.

And, it has developed in our people a spirit of volunteerism which increasingly characterizes the attitude of the elderly toward their peers. We believe that the spirit of volunteerism should not be curtailed in 1984, which is officially designated as the Year of the Volunteer.

Mr. **Affeldt**. Bill Canup, who is on my right, would like to maybe relate some narratives from South Dakota in terms of what has happened there.

Mr. **Canup**. Thank you, Dave. Mr. Chairman, I am very pleased to come here for the second time and discuss the operations of the tax-aide program. We have made an effort in the past year to find applicants and people needing tax assistance among the minorities in the country. This may have been a group which was underserved in the past.

We are now in the process of remedying that by dealing with a wide variety of minority organizations. In South Dakota last September, I had the pleasure of going around with our district coordinator, who is the volunteer leader of the program in South Dakota, and the program is administered and run by the volunteers themselves in the field.

We went to the Sioux Federation. We went first to the Sioux Development Corp. in Pierre. After that, we went down to the Rosebud Reservation, where we talked to some of the Indian leaders. We visited the senior center. We had a visit from the director of the Indian retirement home in Pine Ridge, the next reservation over. We had several meetings in the area and interested some of the leaders there in setting up free tax assistance sites in South Dakota.

I have not received a report as to how they are doing this year, but we expect the second year will be certainly a good year for that kind of outreach.

Senator **Abdnor**. Do not take this wrong. It is fine that you are going down there, but is that where large pockets of retired people are?

Mr. **Canup**. No; they are not. We do not have a larger retired population among the Indians.

Senator **Abdnor**. Poverty there is about as high as anywhere; there are probably less income taxes paid.

Mr. **Canup**. That is exactly it. In those areas, we begin with the elderly people themselves. Many of the Indians are landowners; they have their land out for rental income. Many of them are in retirement homes or living under conditions like that.

Also, there are wage earners, more and more younger Indians leaving the reservation to get gainful employment outside. These people themselves do not have a means of getting free tax assistance; they do not know where to go. So we have an outreach that goes beyond the elderly there in certain poverty areas and among minorities.

The program does that; we have traditionally helped other groups in the population. Even though the program, of course, is TCE, tax counseling for the elderly, we do have a service to other people under these special circumstances.

I think the answer to your question is this came about in the past when we went, as we do now, to special sites—nursing homes, hospitals, shut-ins. There, you will find people of different ages. You may find in the next bed somebody who is not an elderly person, not age 60 and above. So the visiting TCE counselor will do the taxes for that person as well.

Senator Abdnor. Well, let me say that this subcommittee is very aware of the program, TCE, and all the good that it does.

Mr. Canup. Thank you.

Senator Abdnor. I am sure there is no intent on our part to let anything happen to the program. I think that is a pretty fair statement. We have been put to the test on it in other years.

So we thank you for your statement today and your appearance. Thank you very much.

Mr. Canup. Thank you.

Mr. Affeldt. Thank you, and thank you for your support, too.

Ms. Milone. Thank you.

Senator Abdnor. Our next witness is from the American Legion, Joseph E. Miller, assistant director of the national legislative commission. I bet I know what Mr. Miller is here for today.

Welcome, Mr. Miller. Maybe you can help us figure out some of our problems with our dollars here.

The American Legion

STATEMENT OF JOSEPH E. MILLER, JR., ASSISTANT DIRECTOR, NATIONAL LEGISLATIVE COMMISSION

Mr. Miller. Thank you, Mr. Chairman. Mr. Chairman, the American Legion would like to take this opportunity to thank you for the opportunity to present its views on the revenue foregone postal subsidy appropriations for the upcoming fiscal year.

The American Legion recognizes that the United States is facing deficits of unequaled size. We also recognize that each group that receives Federal assistance is being closely examined in order to determine whether their activities are such that continued Federal expenditures are warranted.

That is at it should be, and we applaud the efforts of this subcommittee, the Congress, and the administration to reduce the level of the Federal deficit. At the same time, we would be remiss if we did not point out that nonprofit activity results in less, not more, Federal expenditures.

This year it is estimated by the U.S. Postal Service that to keep nonprofit rates at their current level during fiscal year 1985, an appropriation of $798 million will be necessary. In addition, the USPS is requesting approximately $56 million in revenue reconciliations for prior year shortfalls.

These shortfalls are, of course, due to USPS misestimates. The USPS is also requesting $240 million in transitional expenses. While we have no comment for or against the transitional expenses being requested, we are concerned that somewhere along the line confusion will result over their purpose.

We would like to request that this subcommittee make it clear to all interested parties that the transitional expenses being requested by the USPS have nothing to do with the revenue foregone postal subsidy appropriations, and that the two requests should be considered as separate items. Such consideration will greatly reduce the possibility of confusion between the two postal appropriation accounts.

Mr. Chairman, as you know, the American Legion and its auxiliary is one of the world's largest volunteer organizations with more than 3.5 million members located in the United States and six foreign countries.

The size of this membership, however, is not as important as the contribution that these members make to the national weal. Each year, members of the Legion and American Legion Auxiliary contribute hundreds of thousands of hours to Americans and communities in need. In fact, the extent of Legion volunteer efforts extends beyond helping the needy to programs that also help build a stronger, more aware American population.

These programs are, in our opinion, every bit as important as helping others less fortunate than ourselves. American Legion baseball, high school oratorical contests, scholastic achievement awards, scholarships, and the boys and girls State and Nation programs fall into the category of programs that benefit more than just needy Americans and communities.

In addition, each year the Legion assists thousands of veterans, their widows and survivors in securing benefits from the Veterans' Administration. I would like to add here that they do so, of course, without cost.

We have laid out this rather lengthy list of community-based volunteer programs to illustrate the vast diversity of Legion activities. Yet, with all this diversity, there are two common elements which make all Legion programs possible: A willingness of our membership to devote their energies to volunteer activities, and our ability to communicate with our members.

Each of these elements is dependent upon the other. Without members willing to serve, there would be no programs. Likewise, a diminished communication capacity creates program barriers that reduce information about volunteer programs, activities, and the opportunity to volunteer.

Over the last several years, reduced postal subsidy appropriations have required volunteer organizations to take a variety of steps in order to offset the increased financial burden on their operating budgets. The Legion is no exception. Last year, before this subcommittee, we detailed several Legion programs that had been seriously affected by reduced postal subsidy appropriations.

Fortunately, further reductions in program activity have not been overwhelming and some departments are beginning to recover from the shock of 1981 postal increases.

This subcommittee has led the way in restoring funds to the revenue foregone postal subsidy appropriations. In fact, due in large part to this subcommittee's efforts, by the end of fiscal year 1984 nonprofit rates will have remained stabilized for 21 months.

During this period of stable rates, nonprofit organizations have had the opportunity to plan for future postage increases. These same organizations have also had the time to adjust their operating budgets to accommodate the increase that they know will eventually be forthcoming.

This planning will, however, be for naught if rate increases are not passed along in an orderly fashion. In this regard, there are two possibilities looming on the horizon which might render previous planning by nonprofit organizations moot.

The first is that the administration has once again requested only $400 million for revenue foregone appropriations in the upcoming fiscal year. This is, of course, consistent with the administration's prior year funding request for this account.

There is, however, a second and as yet unknown factor that gives us some cause for concern; that is, the Postal Rate Commission is currently considering a general rate increase as requested by the U.S. Postal Service's Board of Governors.

This rate increase recommendation is entirely in keeping with Public Law 91–375, as it should be in commercial and first-class mail matters. However, there is nothing in Public Law 91–375 or subsequent amendments that requires or suggests that the special price structure of nonprofit correspondence be maintained.

In fact, paragraph 3622 of subchapter II sets forth the "requirement that each class of mail or type of mail service bear the direct and indirect costs attributable to that class or type plus that portion of all other costs of the Postal Service reasonably assignable to such class or type." The other paragraphs further delineate the adjustment of reduced rates in the absence of congressional appropriations.

It is our understanding that the PRC is accordingly attempting to define more costs as attributable to preferred-rate mail. While such an action is consistent with law and judicial decisions, it is inconsistent with the nature of nonprofit correspondence and its public benefit.

If nonprofit mail rates are raised prior to the effective date of the PRC's recommended decision, then nonprofits will potentially sustain two postage rate increases within a 3- or 4-month period. Obviously, since no one knows what the PRC will recommend, we cannot adequately plan for the inclusion of those costs within our operating budgets.

We are not, of course, asking the subcommittee to take action on a matter that does not fall within its jurisdiction. We are simply providing this information as background so that you will see our conundrum.

Over the last 3 years, we have argued for stabilized rates which would allow us to adequately plan for future rate increases. As long as the rate of increase is predictable and not precipitous, budget consideration and adjustments can be made.

However, when unknown factors are involved, such as the eventual PRC recommendations and its effective date, operating budgets cannot be adequately determined. Because of this, the very programs that preferred-rate mail has been developed to assist remain in jeopardy.

There are several possible alternatives to this dilemma. First, sufficient appropriations can be set aside to help soften the effect of future increases. Second, rates can be stabilized at their present levels through the effective date of the next rate increase so that all classes of mail matter will be affected simultaneously.

Third, Congress can revert to the original schedule for phasing in increased costs which was in effect prior to the enactment of the 1981 Reconciliation Act.

Fourth, the language of the fiscal year 1985 appropriations bill could contain specific references to a not to exceed percentage of increase during any subsequent fiscal year.

There are, of course, other possibilities that Congress might wish to consider. One thing to us seems clear: Revenue foregone postal subsidy appropriations are part of a package of investment expenditures which, when taken together, save the Federal Government more than they cost.

In fact, this system of tax benefits and expenditures warrants a closer look. If we take all the tax benefits and expenditures for nonprofit activity, including the postal subsidy, and combine them, their total would equal nearly $21 billion during 1981.

On the other hand, the estimated value of goods and services of volunteer activity during the same period has been estimated at $64 billion. If the Federal costs involved in assisting volunteer programs are subtracted from the total, there still remains a substantial $43 billion in goods and services. In other words, for every dollar invested by the Government in nonprofit, private sector activity, an additional $2 in savings is being achieved.

Since the level of appropriations needed to maintain nonprofit postage rates at their current levels is less than two-tenths of 1 percent of all Federal expenditures, and since it is communications between all levels of volunteer activity that significantly contributes to the high rate of return on Government investment expenditures, we suggest that there is an overriding need to continue appropriations for this most worthwhile subsidy at their present levels.

There is an old military saw, perhaps somewhat rusty now, that says "for the want of a screw, the war was lost." Well, Mr. Chairman, more nonprofit programs and the savings they represent may be lost if the ability of community-based volunteer programs to communicate with volunteers and program recipients is further diminished.

Stabilized rates have, as we said, ameliorated part of the problem. Further stabilization will enhance the ability of nonprofit organizations to contribute to the welfare of Americans and communities in need, and at the same time contribute to the reduction of the Federal deficit.

Mr. Chairman, that concludes our statement and we would be happy to respond to any questions which you may have.

Senator ABDNOR. Well, thank you, Mr. Miller. We certainly know the problem; we run into it every year. If you want to be helpful to us, you can prevail upon the Budget Committee to put the necessary money in there because I think we have robbed Peter to pay Paul just about all we can do now.

Anytime we take it out of other people's budgets to put it over here, we are letting bodies of agencies go. We have the Federal Elections Commission cutting back again for the third year and they cannot perform.

Everybody seems to want this, and we agree, but it is something that is a real dilemma for us. Sometimes I wish I did not have it in my bill. My work would be a lot easier because to find the money is not a very simple thing to do. I do not know how much more we can cut from other places to find the dollars.

So, you crank up your people and put them to work on the Budget Committee so that our budget is set to where we can do these things, and it is going to be a lot easier for us and you and we will all get along better because we do not quarrel with the intent and what you are trying to do here. We have a lot of support for this from one end of the country to the other.

It is true your organizations do a fine job and I know they make quite an impact on the Nation as a whole. So there is not much I ask you because we are not arguing with you at all. We are just saying, as you said yourself, we are $400 million short and we have to try to find it, and we hope that somewhere we can pick up the $400 million and help you out.

Mr. MILLER. Well, Mr. Chairman, we certainly appreciate your support, and thank you again for allowing us to be here today.

Senator ABDNOR. Thank you.

Our next witness is the National Coordinating Committee for the Promotion of History, Dr. Page Miller, director. Welcome to the committee, Dr. Miller. Please proceed.

NATIONAL COORDINATING COMMITTEE FOR THE PROMOTION OF HISTORY

STATEMENT OF PAGE PUTNAM MILLER, DIRECTOR

Dr. MILLER. Mr. Chairman, I appreciate the opportunity to appear before you today to talk about the National Historical Publications and Records Commission's documentary editing and records program.

Although the administration's proposed budget recommends zero funding for this program, the Senate has consistently gone on record supporting the excellent work of the NHPRC's grants program.

Last September, Senator Ted Stevens spoke on the Senate floor on the significance of this grants program. He stated, "As a Nation, we must doubly acknowledge the value of these written works—tools for learning of events in the past and guides for shaping our future." He further asserted, "It is vitally important that we maintain and enhance our repositories of historical documents so that we may not lose sight of the rich history of our Nation."

Last fall, the Senate once again expressed support for the NHPRC grants program by passing reauthorization legislation. In a statement on the occasion of becoming a cosponsor of this bill, Senator Jim Sasser noted that "The commission embodies a worthwhile concept of partnership between public and private institutions." He explained that, "it does not supply more than half of the funds for any of the projects which it undertakes, serving to challenge and help many more institutions and citizens than it could possibly support alone."

The two components of NHPRC's grants program—the publications program and the records program—have both established an outstanding record for compiling and preserving valuable documentary source materials.

The publications grants which fund projects on founding fathers as well as such important and diverse figures as social worker Jane Addams and the sculptor of the Lincoln Memorial, Daniel Chester French, have produced 366 sponsored volumes, 5,758 reels of microfilm, and 1,005 microfiches.

Gordon Wood, in a review in the Washington Post book world on one of the recently published volumes of the Thomas Jefferson project, praised the work. This 20th volume covers the period between April 1 to August 4, 1791, and deals with, in part, Jefferson's correspondence and published writings on the planning of the Nation's Capital.

Just as Jefferson understood the importance of national legacies and national monuments, Wood concludes that "the edited papers of our great national figures are a similar sort of national treasure." They represent a treasure comparable to the nobility and grandeur of monumental buildings.

The preparation of these documentary history volumes takes many years of laborious research. Documentary editing requires meticulous research to locate in libraries, archives, and private collections the pertinent letters and documents, and then to annotate the material in order to provide the minimum information necessary for a basic understanding.

While these publications that recapture the ferment of ideas and special segments of our past have significance for scholars, many others, including judges, Congressmen, and Presidents, regularly justify policy decisions by references to these volumes.

Turning now to the second component of the NHPRC's grants program, which is the responsibility for and the care of records, last year NHPRC funded an assessment and reporting project which developed a process for assessing, evaluating, and finally making recommendations regarding the condition of local and State records.

We would like to emphasize that this project has really been a pathfinding project for the whole archival profession. Because the National Archives itself has been facing great difficulties in just managing to survive, it has not been able to provide leadership for the profession in the way that it has in the past.

States previously used to look to the National Archives for leadership and they have not been able to do this because the National Archives is preoccupied with just sort of keeping its head above water.

So the leadership for such questions as dealing with the impact of technology on traditional records, the impact of dealing with a lot of preservation issues—these questions are really not being dealt with, and so this was a study in which States were able to begin to confront some of these problems themselves, and it came about because of a grant from the National Historical Publications and Records Commission.

I hope I have been able to convey to you some of the vital aspects of NHPRC's grants program. In urging that the committee allocate funds at a $4 million level provided by authorization legislation, I must stress the necessity of including additional funds for this program.

The National Archives and Records Service continues to operate with inadequate staff positions and continues to face large backlogs of preservation, declassification, accessioning, and service work. The National Archives needs every penny of the $92.325 million that has been recommended for the fiscal year 1985 budget.

Thus, in order to restore funds for the NHPRC grants program, I request that the committee adopt a budget of $96.325 million for the National Archives and Records Service.

PREPARED STATEMENT

Mr. Chairman, in closing, permit me to pay tribute to this subcommittee's support in years past of the NHPRC's grants program. On behalf of historians and archivists, I commend your work to insure the survival of our Nation's documentary heritage.

Thank you.

[The statement follows:]

STATEMENT OF PAGE PUTNAM MILLER

I am Page Putnam Miller, director of the National Coordinating Committee, a consortium of over 30 historical and archival organizations. I appreciate the opportunity to appear before you today to discuss the importance of the National Historical Publications and Records Commission's documentary editing and records program.

Although the administration's proposed budget recommends zero funding for this program, the Senate has consistently gone on record supporting the excellent work of the NHPRC's grants program. Last September Senator Ted Stevens spoke on the Senate floor on the significance of this grants program: "As a Nation, we must doubly acknowledge the value of these written works—tools for learning of events in the past and guides for shaping our future." He further asserted "It is vitally important that we maintain and enhance our repositories of historical documents so that we may not lose sight of the rich history of our Nation."

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The preparation of these documentary history volumes take many years of laborious research. Documentary editing requires meticulous research to locate in libraries, archives, and private collections the pertinent letters and documents, and then to annotate the material in order to provide the minimum information necessary for a basic understanding of each document. While these publications that recapture the ferment of ideas and special segments of our past have significance for scholars, many others including judges, Congressmen, and Presidents, regularly justify policy decisions by references to these volumes.

The second component of the NHPRC grants program focuses on the responsibility and care of records. Since the establishment of the records program in 1975, this vital program has played a substantial role in assisting public agencies, private institutions, and associations to address critical records preservation programs. Many cities and counties, for example, have done little to manage and preserve their records for administrative and research purposes. Last year the NHPRC funded an assessment and reporting project which developed a process for assessing, evaluating, and finally making recommendations regarding the condition of local and State records. This project has raised important questions about the unique problems of large municipalities, the impact of technology on traditional records forms, preservation concerns, and privacy legislation. The State assessment studies and the working conference that followed marked a significant turning point in the archival and records management community's ability to identify needs and to develop proposals to improve the condition of historical records programs at the State and local levels.

I hope I have been able to convey to you some of the vital aspects of the NHPRC's grants program. In urging that the committee allocate funds at the $4 million level provided by authorization legislation. I must stress the necessity of including additional funds for this program. The National Archives and Records Service continues to operate with inadequate staff positions and continues to face a large backlog of preservation, declassification accessioning, and servicing work. The National Archives needs every penny of the $92.325 million that has been recommended for the fiscal year 1985 budget. Thus, in order to restore funds for the NHPRC grants program, I request that the committee adopt at budget of $96.325 million for the National Archives and Records Service.

Mr. Chairman, in closing permit me to pay tribute to this subcommittee's support in years past of the NHPRC's grants program. On behalf of historians and archivists, I commend your work to insure the survival of our Nation's documentary heritage.

Senator ABDNOR. Well, thank you, Dr. Miller. We are aware that we have the authorizing legislation. We just wish the Office of Management and Budget and the Budget Committee would recognize that and help us out because every time we are short dollars, we do not have much room to play with in this subcommittee.

We do not have many of the big programs that many of the other subcommittees have. We deal with people, and when we start cutting very deep, we are cutting out positions and bodies. We do not have other big programs to work over and maybe take a little out.

We have been doing surprisingly well at it, keeping everybody afloat, but it gets a little more difficult each year. So maybe if you will help us as we go along here, we can get the dollars we need to put in here because it seems to be a very popular program, and no one denies it is a good program and needed.

So we thank your organization for taking the time to plead with us to try to do something about this, and we thank you very much.

Dr. MILLER. Thank you.

Senator ABDNOR. I hope Charlene Bickford does not think we tried to keep her for last.

COALITION TO SAVE OUR DOCUMENTARY HERITAGE

STATEMENT OF CHARLENE N. BICKFORD

Ms. BICKFORD. I am here; we made ourselves into a panel.

Senator ABDNOR. Oh, I did not understand that. Well, what is left for you to say if it is on the same issue?

Ms. BICKFORD. Well, not a whole lot. I would say on that issue that I did hear that during the agency hearings on the House side, there was a promise from the GSA representatives that they would go back to OMB and try to get some level of funding put in for the Commission because this was not put in because the preliminary budget was done before the passing of the Authorization Act. So we may get some level suggested by OMB.

Senator ABDNOR. I understand that there is a possibility of a supplemental coming along.

Ms. BICKFORD. Right.

Senator ABDNOR. We will certainly keep our eyes open on it and see what can be done.

Ms. BICKFORD. The only thing I would say in addition to what Dr. Miller has already said is that one of the crucial components of this whole program is the Federal funding because without it the whole thing collapses. The Federal funding is really used as the carrot to try to induce institutions and foundations to contribute to this kind of work, which is not what you would call flashy kinds of work.

It is long-term, tedious scholarship, and scholarship of national importance because we have a national responsibility to present our history as the longest surviving democracy in the world.

I think that is the key. Without the Federal funding, you will also not have the private funding. The theory that private funding will pick this up and run with it has just not been proven by any experience of the past few years.

PREPARED STATEMENT

Also, I would point out that the $4 million appropriation for the Commission would fund it again at exactly the same level that it was funded in fiscal year 1981. It is no increase; it is no contribution to any inflationary spiral. It is just to try to continue the program at the same level.

[The statement follows:]

STATEMENT OF CHARLENE N. BICKFORD

I want to thank you for the opportunity to appear before this committee. I testify today as the representative of the 57 member organizations of the Coalition to Save Our Documentary Heritage. These organizations represent historians, archivists, genealogists, editors, educators, librarians, publishers and others, who have a common concern for the preservation and publication of the documents that tell the story of our Nation's history for use by this and future generations. I have attached a list of our member organizations to my testimony for your information.

The members of the Coalition urge this committee to fund the grants program of the National Historical Publications and Records Commission (NHPRC) at the authorized level of $4 million. In addition, we request that this appropriation be made as an addition to the budgeted figure for the National Archives and Records Service.

I will speak first to the NHPRC issue and then to the larger issue of the total NARS budget.

For the fourth year in a row the NHPRC's grants program is in danger of extinction. For the past three years, recognizing the importance and effectiveness of this program, the Appropriations Committees have chosen to fund it, even though the authorizing legislation had expired. Last November the Congress passed a five year reauthorization, and the President signed this legislation. Yet no funding for the program is requested in the Administration's budget. This occurred partly because the GSA budget had already been drafted and sent to the OMB before the authorization was passed. No supplemental request has been made by GSA.

The support Congress has exhibited for this tiny but effective program during the past three years proves to us that the Congress wants this program funded. The original argument for zeroing out this program, that private funds were available to replace the NHPRC grants, has been proven fallacious. Although considerable time and effort have been invested in making appeals to foundations and corporations, success in this endeavor has been limited. The corporation set up by the Founding Fathers projects (Adams, Washington, Franklin, Jefferson and Madison) has raised $3.5 million of its goal of $5.0

million for a period of five years, but projects publishing the papers of such notable Americans as Henry Clay, the financier Robert Morris, Frederick Douglass, Susan B. Anthony, Ulysses S. Grant, George C. Marshall and many others have not had the same success.

Only a limited number of foundations have goals consistent with supporting documentary history projects, and all of them have been approached. The fact remains that the theory that the private sector will provide complete funding and maintain these projects has not been proven. There are no private foundations or corporations ready to commit the long term stable support that these projects require. Some editors who have gone hat in hand to foundations have been told that foundations are unwilling to pick up the cost of a program they believe should be funded by the government.

The past two years have been the most productive in the history of the NHPRC. In spite of the financial insecurity caused by the continuing threat to the grants program, NHPRC sponsored projects have published 52 volumes and 11 complete microfilm editions in the past 28 months. Increased use of word processing and computer technology has been supported by the Commission, both with grant funds and technical assistance, and this policy is beginning to yield dividends through more rapid publication with no loss in editorial excellence.

Last year the Congress passed an act to establish a commission that will plan the national celebration of the bicentennial of our Constitution. Yet the projects publishing the documents relating to the founding of our nation are endangered. If NHPRC grant funding became unavailable, these projects, The Documentary History of the Ratification of the Constitution and The Bill of Rights, The Documentary History of the First Federal Elections, The Documentary History of the First Federal Congress, and The Documentary History of the Supreme Court (1789-1800), which were initiated by the NHPRC, would be forced to cease their work. They would be unable to provide the published documents that should be the centerpiece to any bicentennial celebration.

I have focused on the issue of private funding for the publications projects because both OMB and GSA have made the argument that these projects can secure the necessary private funds. The possibility of obtaining foundation or other support for records preservation projects without federal funds as leverage is not even considered. The records program would simply expire without the federal contribution. Over half the states have recently completed records assessment studies, partially funded by the NHPRC, that will provide the data base necessary to set state by state records preservation priorities. The funds appropriated in FY83 and FY84 for records grants have been employed to fund such records assessment studies in the rest of the states. Continued grant funding is necessary to stimulate the development of records preservation programs which will work to solve the myriad pressing problems identified in these studies.

The NHPRC was established to assist in a very specific task: the preservation of historic records across this nation and publication of those that are of special importance to the story of our nation's development. From the earliest days of the grants program in 1964, the Commission has insisted upon private support as one of the ingredients in the funding mix of a project to which it awarded financial support. Unlike other granting agencies, the NHPRC never makes grants for indirect costs. Therefore the sponsoring institutions must contribute all the overhead. And the NHPRC also insists that further private funding for the projects be solicited. In other words, the "carrot" of federal funding is used to encourage additional support. Without this "carrot," more would be lost than federal funding. A very carefully constructed public-private funding partnership would collapse. An appropriation of only $4 million would keep this partnership alive.

For the past two years the Coalition has advocated a higher funding level for the National Archives and Records Service. This year we are simply requesting the amount in the Administration's budget with an additional $4 million for grants. We do this, not because the figure requested for the Archives is ideal, but because current GSA policies make it almost impossible for NARS to spend above this level. For the third year in a row, GSA is trying to reduce expenditures budgeted for personnel costs by 6%, partially by refusing the appropriations available through the annual pay acts. Although there has been a continuing erosion in NARS staff and services during the years following the devastating RIF of 1982, even as the number of requests for information has grown, GSA imposes the personnel cost reduction annually with no review of NARS special needs. NARS has not trained a new class of archivists in five years, and many members of that class were lost in the 1982 RIF.

There are several areas that we have identified in past hearings where additional funding is needed for NARS to accomplish its mandate, including preservation, declassification, more effective oversight of adequacy of documentation of agency records, a new national archives building, and computerized finding aids. But increased personnel is the primary need. As long as NARS remains within GSA, our documentary heritage is threatened by policies created for a housekeeping agency, which cause havoc in a labor-intensive agency.

Therefore the Coalition urges the members of this subcommittee to support S.905, a bill to establish an independent National Archives and Records Administration, which was introduced by Senator Eagleton and is currently cosponsored by 44 Senators when it comes to the Senate floor this spring.

The American Association for State and Local History
National Association of State Archivists and Records Administrators
American Historical Association
National Coordinating Committee for the Promotion of History
American Catholic Diocesan Archivists
Association for Documentary Editing
Northeast Document Conservation Center
Pacific Northwest Archivists Inc.
American Association of University Presses
Organization of American Historians
Society of Georgia Archivists
Kentucky Council on Archives
Tennessee Archivists
Society of Southwest Archivists
Long Island Archives Conference
New England Archivists
Society of Ohio Archivists
Society for History in the Federal Government
American Library Association
Society of Indiana Archivists
New England Museums Association
Massachusetts Committee for the Preservation of Architectural Records
Conference of Intermountain Archivists
Society for the Preservation of New England Antiquities
Southern Historical Association
Western Council of State Libraries
The National Trust for Historic Preservation
Michigan Archival Association
Columbia Seminar on Early American History and Culture
American Society for Legal History
Regional Conference of Historical Agencies (Central and Northern New York)
Mid-Atlantic Regional Archives Conference
New England Library Board
Midwest Archives Conference
Association of Research Libraries

Conservation Administration News
Public Works Historical Society
Society for Historians of the Early American Republic
Kansas City Area Archivists
Association for the Study of Afro-American Life and History, Inc.
Dobbs Brothers, Restoration and Conservation Co., Inc.
Association of Records Managers and Administrators, Inc.
Coordinating Committee on Women in the Historical Profession
Society for Scholarly Publishing
National Association for Interdisciplinary Ethnic Studies
Tennessee Cultural Crisis Committee
Society of California Archivists
Archivists Roundtable of Metropolitan New York
American Military Institute
The Manuscript Society
Lake Ontario Archives Conference
The Berkshire Conference on the History of Women
The Society of American Archivists
Agriculture History Society
Society for the History of American Foreign Relations
National Genealogical Society
Society of Mississippi Archivists
The American Association of University Women

Senator ABDNOR. Well, thank you. You make a very good point. In other words, the $4 million is just kind of seed money.

Ms. BICKFORD. Right; that is exactly what it has been used for.

Senator ABDNOR. And I assume you agree with Dr. Miller that the Archives' budget should be increased?

Ms. BICKFORD. Very much so. In fact, I had in my prepared testimony that this is a bare-bones Archival budget and we have made suggestions in the past 2 years about things that need to be done at the Archives. But the current personnel policies of the General Services Administration, where they have been trying to cut back by 6 percent each year in their personnel expenditures and have refused the Pay Act money for the last 2 years, have really made it so that the Archives, which is a labor-intensive agency, has not been able to do a lot of the things that it is supposed to be doing.

They have lost a tremendous amount of staff. They have not started a new class of archivists in 5 years. They lost a lot of the last class in the RIF in 1982, so they are just barely holding on. But there is not much you can do for them budgetwise until some policies change.

Basically, I made a plea for your support for S. 905, which would make the National Archives an independent agency. It has 45 sponsors here in the Senate and we hope that it will come to a vote this spring on the floor.

Senator ABDNOR. Thank you. I assure you your statement will be made part of the record and we will be looking it over. Ladies, we thank you both for coming today and presenting your case. It was well done. Thank you.

ADDITIONAL PREPARED STATEMENT

We have held these hearings at an earlier date than usual and I am sure there will be others wishing to submit statements, so I will, therefore, ask unanimous consent to keep the record open for any such statement that may come forth.

[The information follows:]

LETTER FROM JAMES M. PEIRCE, PRESIDENT, NATIONAL FEDERATION OF FEDERAL EMPLOYEES

April 5, 1984

The Honorable James Abdnor
Chairman, Subcommittee on Treasury,
Postal Service and General Government
Senate Committee on Appropriations
SD-188, Senate Dirksen Building
Washington, D.C. 20510

Dear Chairman Abdnor:

I regret that I was unable to personally appear before your Subcommittee to testify on fiscal year 1985 agency appropriations under the Subcommittee's jurisdiction. Among the issues which concern us this year are adequate funding for the Federal Employees' Health Benefits Program, the contracting out of certain General Service Administration positions reserved for veterans, the continued restriction on the Office of Personnel Management's new personnel regulations, the closure of agency printing shops and Wage Grade pay caps. I am enclosing a copy of NFFE Statement on these issues and request that you include our testimony in the official hearing record. If you should have any questions on NFFE's Statement, please feel free to contact me or NFFE's Legislative Liaison.

Thank you for your cooperation.

Sincerely,

James M. Peirce

James M. Peirce
President

STATEMENT OF JAMES M. PEIRCE

Mr. Chairman and Subcommittee Members: The National Federation of Federal Employees appreciates this opportunity to testify on Fiscal Year 1985 Appropriations within the jurisdiction of the Subcommittee. Among the issues of special concern to us are the Federal Employees Health Benefits Program (FEHBP), the contracting out of certain General Services Administration (GSA) positions reserved for veterans, the restriction on the Office of Personnel Management's (OPM) new personnel regulations, the closure of agency printing shops and wage grade pay caps.

The FEHBP was once one of the finest group health insurance programs in the Nation, offering a unique array of comprehensive health insurance plans to Federal employees and retirees at reasonable cost. In recent years, however, the FEHBP has been the target of what we believe were unnecessary cutbacks in benefit levels. This situation was precipitated by OPM.

Three years ago the agency required the FEHBP carriers to implement a ten and one half percent reduction in benefit levels claiming there were insufficient funds to pay the government contribution to maintain the previous year's benefit levels. Then, in 1982 and 1983, there was a general freeze on discretionary spending including agency operating budgets. The freeze maintained agency salary and expense accounts at previous year levels adjusted for inflation. But the inflation rate measured by the Consumer Price Index has been lower than the inflation rate of the medical component of the CPI, In other words, health care costs, including those within the FEHBP, have been increasing at a much faster rate than the cost of other consumer products. While agencies were given operating budgets in those two years that reflected the change in the CPI, OPM claimed they were not raised sufficiently to pay the Government's share of higher premiums for benefit costs that rose nearly 40 percent during that time period. FEHB premiums have continued to increase sharply. According to OPM, the employees' share of premium costs rose 19 percent last year and the Government's share increased by 13 percent.

In Fiscal Year 1985, there is a strong possibility that discretionary spending may not be increased enough to keep pace with the inflation rate. The House Budget Committee has already marked up its version of the First Concurrent Budget Resolution which would provide a 3.5 percent increase to most discretionary programs, an amount lower than the anticipated inflation rate of about 5 percent. The Senate is also considering caps on agency spending. Yet the medical component of the CPI is expected to show a 17.5 percent jump, raising the cost of current FEHBP benefit levels from approximately 3.6 billion dollars to 4.2 billion dollars. NFFE is extremely concerned that OPM will again force another round of benefit cuts.

We hope that the Subcommittee will prevent any benefit cuts and protect the FEHB program. We've maintained all along that there is adequate room in agency salary and expense accounts to finance the additional premium costs generated by the sky-rocketing costs of health care. We would therefore like the Subcommitee to investigate this assertion. If it is found to be accurate, then OPM should be prevented, perhaps through a prohibition in the FY 1985 Treasury and General Government Appropriations Bill, from making benefit cuts from 1984 levels. Should our assertion prove wrong, we would like the Subcommittee to seek additional funds to finance the FEHBP through 1985 without further benefit reductions.

We recognize the difficulty of this last request, but we firmly believe that health care coverage for Federal workers and their families cannot withstand additional high premium increases and benefit reductions without endangering their overall welfare.

Another issue of concern to NFFE is the Administration's efforts to contract out Federal jobs, especially within the General Services Administration. We are referring to GSA positions reserved for preference eligibles who are veterans. Under Section 3310 5 U.S.C., veterans categorized as preference eligibles are given a greater opportunity to be hired by the Federal Government as guards, elevator operators, messengers or custodians. The section was enacted as part of the Federal Government's effort to extend special consideration to the men and women who served their country in war.

The intended employment preference, however, has been thwarted by the contracting out of these positions to the private sector. It was not Congress' intent to reserve these positions for the private sector, yet to a large degree, they have been converted at a great loss to the Nation's veterans. For the last two years, Congress has approved a restriction on contracting out these positions. NFFE hopes that the Subcommittee will again propose language in the FY 1985 Treasury and General Government Appropriation bill to protect veterans to the greatest possible degree from the threat of increased contracting out.

NFFE is also concerned about the Administration's efforts to close down and contract out agency printing plants. In January, 1983, Office of Management and Budget (OMB) Deputy Director Joseph Wright and Government Printing Office (GPO) Public Printer Danford Sawyer surveyed Federal agency printing operations by distributing a questionnaire developed by Mr. Sawyer. Agencies were then asked to identify and report on their duplicating facilities to OMB with little or no input from the printing plant employees. Once OMB and GPO reviewed these reports, they sent out notification letters to 30 agencies recommending the closure of 229 facilities and the downgrading or consolidation of 46 other printing plants including 17 printing plants within GSA, 21 in the Treasury Department, and 39 in other independent agencies. Much of the work would then be turned over to the private sector based on the results of an informal study and the notion that the work could be done less expensively by a contractor.

In other words, the Administration has chosen to by-pass the cost-comparison process. Despite NFFE's continuing efforts to obtain the information from OMB proving that the private sector could operate non-GPO printing plants cheaper than in-house personnel, OMB has refused to produce such material.

Neither the employees nor the Federation have been consulted or been given the opportunity to demonstrate that the work can be done less expensively and more efficiently in-house. Nevertheless, the President's FY 1985 budget request did not contain the line item funding for these printing plants (although we believe the funding still exists in other accounts).

We hope that the Subcommittee will investigate this matter to determine whether or not the Administration is abusing the Government's contracting out authority. Until the normal cost reviews are made, full funding should be restored to all agency printing plants. We hope the Subcommittee will include in its funding bill a prohibition on the closure and contracting out of these printing operations pending completion of formal cost comparison studies. OMB has no proof that the private sector can do the work less expensively, so their actions may end up costing the taxpayers money.

We would also like to briefly discuss two issues important to the Federation. The first pertains to the current congressional restriction, incorporated in last year's Continuing Resolution, against OPM's implementation of its new personnel regulations. After enactment of this restriction, OPM challenged its efficacy in Court. Although the District Court upheld the restriction, OPM again challenged it before the Appeals Court, which is now considering the case. Regardless of the Appeals Court decision, the ban will still expire on October 1, 1984. Considering OPM's record so far, NFFE is concerned that even if the Appeal Court upolds the District Court ruling, OPM will merely wait until the ban expires in October to implement its regulations. We hope the Subcommittee will prevent OPM from circumventing the clear Congressional intent to prevent the implementation of the OPM regulations by continuing the ban through FY 1985.

The final issue which we would like the Subcommittee to consider deals with the 1984 pay raise for Federal Wage Grade employees. Last year, the Administration sought a 3.5 percent pay raise for General Schedule employees, delayed by three months. Intending to grant an equitable increase to Wage Grade employees, Congress included language in the FY 1984 Continuing Resolution (Section 110, Public Law 98-107) which stated that Wage Grade workers should receive a pay increase that did not exceed "the overall average percentage of the adjustment in the General Schedule during the fiscal year ending September 30, 1984." OPM interpreted this provision to mean that these employees should only receive a 2.6 percent increase. Since a pay raise is granted in perpetuity, the effect of such a limit would have been to cap Wage Grade salaries at 0.9 percent below GS salaries.

Thanks to the efforts of the Subcommittee, this pay disparity was averted. Language was included in the FY 1984 Treasury Appropriation bill and carried over into the last Continuing Resolution which called for the same percentage increase for both GS and Wage Grade workers. Since the Administration is once again considering delaying the pay increase for GS workers, we hope the Subcommittee will again ensure that Wage Grade workers are not given a lower pay raise.

This concludes my statement. I will be happy to answer any questions.

SUBCOMMITTEE RECESS

Senator **Abdnor**. That concludes our hearings for today and I want to thank each and every one of our witnesses for their understanding and cooperation. I know we cut you short, but we believe very strongly in your programs. Your participation in the process will be helpful, I assure you, and we will review the statements as we get ready to deliberate on our dollars that we have to spend.

We are going to be meeting again tomorrow at 10 a.m. when the subcommittee will receive testimony from the Director of the Office of Management and Budget.

So, if there is no further business to come before the subcommittee, we stand in recess until 10 a.m. tomorrow.

[Whereupon, at 3:40 p.m., Tuesday, March 20, the subcommittee was recessed, to reconvene at 10 a.m., Wednesday, March 21.]

TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 1985

WEDNESDAY, MARCH 21, 1984

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 10:10 a.m., in room SD-124, Dirksen Senate Office Building, Hon. James Abdnor (chairman) presiding.

Present: Senator Abdnor.

EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

STATEMENT OF DAVID A. STOCKMAN, DIRECTOR

ACCOMPANIED BY:
DAVID GERSON, ASSOCIATE DIRECTOR
CANDICE C. BRYANT, DEPUTY ASSOCIATE DIRECTOR FOR ADMINISTRATION

OPENING REMARKS

Senator ABDNOR. The subcommittee will come to order.

Today the subcommittee continues its fiscal year 1985 budget hearings.

Our first witness today will be David A. Stockman, Director of Office of Management and Budget, and Donald Sowle, Administrator of the Office of Federal Procurement Policy.

We also have the ATF and FLETC this afternoon, but this morning was reserved solely for Mr. Stockman. And, unfortunately, as I said, our meeting will be short today, because we all have other places to go.

With that, I am not going to waste any time, we will turn it right over to you.

Mr. STOCKMAN. Thank you, Mr. Chairman.

Since the meeting is short, I will make my presentation short. I will note that even though our hearing room is getting bigger each year, our budget at OMB is not.

BUDGET REQUEST

To give you the essentials, our appropriation in 1984 was $37 million. We will need about a $800,000 supplemental for the pay increase that Congress has approved, so our starting baseline from 1984 is $37.8 million.

We are requesting $40 million for 1985; 98 percent of that is attributable to the automatic SLUC increase that we have included in the 1985 budget on a Government-wide policy basis. So essentially, other than the mandatory SLUC increase, our request for 1985 is essentially flat with the level of funding for 1984, including the supplemental.

In terms of the overall trend, I believe that we have done a pretty good job given the enormous pressure that we are under to try to manage this budget that is moving toward $1 trillion a year as well as major new responsibilities that we have in the regulatory area.

We have the same number of people that we have had for the last 5 or 6 years. Our average examiner is now responsible for 5 billion dollars' worth of Federal outlays, a rather staggering responsibility I think.

If you adjust for inflation over the last several years, our 1985 budget request of $40 million is down about 13 percent in inflation adjusted dollars from the 1980 operating level.

We have found a variety of opportunities to actually reduce the cost of such things as communication, equipment, and supply costs. These items are actually down in 1985 from what we anticipate we will spend in 1984.

That basically summarizes our request. There is very little change. It is a very tight number, but consistent with what we are trying to do Government-wide. We believe that we can do the job at this level.

SLUC

Senator ABDNOR. All right. SLUC, that is a big item in your budget. Are you satisfied it is working well? Are we handling it properly the best we can on the charge we are making from space——

Mr. STOCKMAN. Mr. Chairman, in theory I believe it is a good policy and I believe it would work well. Unfortunately for the last couple of years we have gotten into a dispute with the Congress about the rate of annual increase. There was a freeze on 1983 rates and a 14-percent cap on the 1984 rates. As a result, the SLUC schedule has not been maintained. What we have proposed to do in the 1986 budget is to catch up because of the freeze and cap imposed in the previous 2 years. For 1985, we are requesting the same SLUC rates that were originally requested in 1984 but capped at a lower level. We then propose that by 1986 we will get back to the full SLUC cost that would be determined by the formula that is used to calculate such charges.

If Congress chooses to cap again this year, we are going to get an even greater imbalance between what is being appropriated and what the formula produces. We will run into a situation where we do not have enough money in the revolving fund to take care of essential construction and rehabilitation activities. A situation will have been created where the formula is producing one number and the appropriation process is producing one much lower. This situation will certainly create problems. I would hope Congress would refrain from capping the SLUC charge this year.

This concept is consistent with good bookkeeping and management, because it requires each agency to recognize the cost of the space and related services they are using.

Senator ABDNOR. We have done some work with GSA and we are hoping to avoid that also from this end. I do not know if we had any feel as to what other areas of the Congress plan to do. But we are just kidding ourselves, it is going to catch up with us some day, trying to put caps on it—at least if we are going to continue SLUC as a means and a formula for handling this, then we had better let it work like it is supposed to.

But let me ask you, the Budget Review Division will be reduced by 10 positions in 1985; what accounts for this reduction? Work reduction or——

Mr. STOCKMAN. We have had some reorganization, I will ask Mr. Gerson to answer that.

Mr. GERSON. Mr. Chairman, the Budget Review Division has previously been responsible for publication of the catalog of Federal Domestic Assistance. As you may know, there is agreement that the function will be transferred to GSA in the 1985 budget, and the reduction of 10 positions represents the transfer of that function.

Senator ABDNOR. It will go to GSA then?

Mr. GERSON. Right.

Senator ABDNOR. No other priority, there is no change of priority other than——

Mr.Gerson. No, sir, that is the extent of the change.

Senator ABDNOR. I just want to bring up the SLUC fund. I jumped the gun in asking you about that. But we are going to be working closely with GSA.

Have you looked at other alternatives at all for SLUC? I mean, you are satisfied this is still the best way to go if we let it operate like it ought to?

Mr. STOCKMAN. Yes; if we let it operate like the formula requires. But as I indicated, if we do not permit that and we keep freezing or capping, we are going to have a totally fictional situation on our hands which will interfere both with the idea that there should be a charge in each agency budget for the space and services they are using, and the GSA property and building management operation should be funded out of the revolving fund. We are not going to be able to do that if we keep freezing or capping the SLUC charge.

Senator ABDNOR. Let us say that happens, what do you think we ought to do then? It is something I guess we will have to do what the Congress says we are going to do, but is there any other alternatives that we could come up with if this is——

Mr. STOCKMAN. Well, I suppose there are two kinds of alternatives. One would be to redesign the formula.

Senator ABDNOR. Yes.

Mr. STOCKMAN. So that it would be more widely supported in Congress. I do not think that is a good idea.

The other would be to go to a different system.

I do not want to give up on what we have. It was put into effect during 1972. It is a good reform, it has worked reasonably well over time, and I would just hope we could resolve this logjam that we have now in terms of appropriations.

Frankly, Mr. Chairman, I would have to say one of the reasons that SLUC is continually capped or frozen is because some of the subcommittees believe this is a way to show a cut from the President's budget.

Senator ABDNOR. Yes.

Mr. STOCKMAN. In terms of new BA requested, you can calculate it as a cut. But, of course, that is entirely an intragovernmental transfer and results in no outlay reductions, no spending reductions; it is a bookkeeping cut.

I would hope that we can convince the committee that these bookkeeping cuts do not do anything except interfere with a good management mechanism that we have in place.

GRADE REDUCTION

Senator ABDNOR. Now, maybe we can get them to take a broader look at this and realize that the end results really do not prove anything.

Well, this committee is concerned, Mr. Stockman, about the GS-11 to GS-15 grades. We have had reductions. Agencies such as Secret Service and IRS, BATF, and Customs will find themselves in difficult straits if blanket action is taken Government-wide.

I would hope that the proper consideration is being given to adverse impact.

Have you admitted to yourself there are some areas that cannot take the same cut that other areas are doing?

Mr. STOCKMAN. Yes, Mr. Chairman. Obviously an effort of that sort which is Government-wide has to be implemented with some flexibility and cognizance for some of the individual agency requirements like those you have mentioned. However, I do want to state that this was a major Grace Commission recommendation. Since we are under a mandate from the President to try and implement as many of those Grace Commission management recommendations as possible, we are moving forward on this. However, there will be an agency-by-agency application of the general policy objective.

Senator ABDNOR. Yes; like I said to one of our groups the other day, it would be like taking a flat 10-percent cut straight across the budget; that is fine. But there are some areas, as you well know better than I do, that have taken a lot of cuts and 10 percent is going to hurt them a lot more than new virgin territory where we have not cut.

It would be a lot tougher to take 10 percent off some agencies in Government that we have already cut to the bare bone. If we are going to keep the agencies, that is.

That is a little bit hairy. In some places these higher graded people are more necessary, they are not topheavy particularly. There is real justification for their presence in having that kind of a rating. I just wanted to make sure when you do go into this, look this over, if it comes into being, that consideration is given on an agency-by-agency basis.

Mr. STOCKMAN. Mr. Chairman, if I could clarify, this is a Government-wide objective, but it is not an across-the-board mechanical cut in the GS-11 to GS-15 ratio in each agency. It will be applied agency by agency.

Senator ABDNOR. OK. That is good.

Is there anything else you want to add?

Mr. GERSON. I might just note our agency is one that is highly graded.

Senator ABDNOR. I believe you are.

Mr. GERSON. This situation exists because of the important work and the substantial role that OMB has. However, even at OMB, the average grade level has been trending down. Today it is at its lowest level since 1972. So it is possible by hiring new people at lower grade levels, to achieve some economies without cutting into the agency's function.

IMPACT AID

Senator ABDNOR. Mr. Stockman, as subcommittee chairman I can get a bit parochial in an issue I have specific interest in, the impact aid. I find more and more there is interest. I am not speaking of the abuses that may go on; I am talking about the areas like the bases, some of the air bases in particular, some of the country where Indian reservations exist where we are buying up more and more tribal land that goes off the taxroll, percentage of kids increase in the total schools. In some places—my worst example, I think two-thirds of the land in this one county is nontaxable because it is tribal land, and I think over 75 percent of the students are Indian students. And it's no one's fault, the law is just that way. Someone has got to help these counties.

We were successful last year in increasing that, and I hope to be successful this year, because some of these schools around the country have a great concern about it. I am not going to go into that now, but I am going to, for the record, have a short statement, and I am going to be sending you a letter on the subject, so you know it is coming, rather than to take the time today.

[The information follows:]

STATEMENT OF SENATOR JAMES ADBNOR

Mr. Stockman, I would like to take this opportunity to comment on another matter of great concern to me and to many of my colleagues.

I am advised that the Department of Education has forwarded for your consideration a proposed change in impact aid regulations. This proposal has been in the making for the past 2½ years, yet the Department has decided that now—in the middle of the fiscal year—is the time to pursue a substantive change in the way in which rates are established for federally impacted districts.

This proposed change flies in the face of the intent of this committee which, for the past 2 years, has taken steps to insure that the administration would not alter current rate policy. Our report on the fiscal year 1984 Labor-HHS and Education bill states:

The committee has learned that the Department may again pursue a change in the manner by which rates are established for local educational agencies in States which utilize comparable districts. The committee opposes any such change in policy which would negatively impact payments to the local educational agencies in these States. The committee insists upon the opportunity to approve or disapprove any change in rate policy and directs that the Secretary shall, no less than 45 days prior to implementing any change in the method for establishing rates, inform the Senate and House Appropriations Committees of his intentions.

As you are aware, this program is current-year funded. Impacted LEA's are relying upon their fiscal year 1984 payments to meet their financial commitments for the current—1983-84—school year. I trust you will consider this matter carefully, and in light of the legislative history created by this committee.

OMB RESPONSE ON IMPACT AID

On March 30, 1984, the Department of Education issued proposed regulations dealing with payment rates under the impact aid program. The proposed rules would allow school districts to choose the most advantageous of several methods of setting payment rates, including rates based on comparable districts. The primary force behind the new regulations has been recent litigation, especially a district court ruling declaring illegal one of the payment methods in use by education. Although that ruling is being appealed, the Department wants to have legally valid procedures in place as soon as possible. The methods in the proposed regulations are based on objective factors that measure comparability among districts and would produce equitable results across the Nation. There is a 45-day comment period on the proposal. Copies of the proposed rules have been sent to the authorizing committees and the appropriations committees, as well as to several thousand State and local educational agencies participating in the impact aid program. The Department of Education encourages all interested parties to comment on the proposed regulations. All comments will be carefully considered prior to publishing a final regulation.

PREPARED STATEMENT

Senator ABDNOR. So with that, we will call our next witness. But first, do you have a statement to make?

Mr. GERSON. Mr. Chairman, Don Sowle, Administrator of the Federal Procurement Policy, is here.

Senator ABDNOR. Just 1 minute.

[Discussion off the record.]

Senator ABDNOR. All right.

Mr. STOCKMAN. Mr. Chairman, I think the procedure is two presentations, since in the appropriations process the OMB budget per se is separate from OFPP.

Senator ABDNOR. Very fine.

You know, we have to hear from Mr. Sowle, so we will let you off the hook easily today. It is probably one of the easier committees to come in front of.

Mr. STOCKMAN. The best one there is, Mr. Chairman.

Senator ABDNOR. Thank you. It is nice to have you.

We will submit something in writing. Your statement will be inserted in the record at this point.

[The statement follows:]

STATEMENT OF DAVID A. STOCKMAN

I appreciate the opportunity to appear before you this morning to discuss the fiscal year 1985 budget request for the Office of Management and Budget (OMB), as well as our fiscal year 1984 pay supplemental request. I would like to introduce Associate Director David Gerson and Deputy Associate Director for Administration Candice C. Bryant, who are accompanying me today.

The President has requested $40,005,000 for OMB in fiscal year 1985. Approximately eighty-eight percent of this request is for personnel compensation, Standard Level User Charges (SLUC), printing for the President's budget, and text and data processing support. An additional four percent of the request is for telephone service, postage, utilities, and equipment rental--areas where 1985 costs are being reduced by $200,000 due to the planned purchase of telephones and other currently leased equipment. The remaining eight percent of the request is for staff travel and training, background investigations, equipment maintenance and purchases, and ADP and other office supplies.

The 1985 request is $2.2 million (5.8%) above OMB's 1984 requested level of $37.8 million. This 1984 level is based on:

- o our enacted 1984 appropriation of $37,000,000, plus
- o a requested 1984 pay supplemental of $806,000, covering the January 1984 General Schedule and Executive Level pay and associated benefit increases.

Ninety-eight percent (or $2.1 million) of the 1985 increase over 1984 is for a mandatory increase in SLUC, which is scheduled to rise by ninety-eight percent. Only two percent (or $37,000) of the requested 1985 increase is for items other than SLUC. If we were to take our 1984 budget and adjust it for current services increases in 1985, it would be $872,000 higher than our pending request.

In real terms, our 1985 budget request is approximately thirteen percent below our 1980 operating level. In contrast, the average budget examiner will be responsible for reviewing approximately $4.9 billion in outlays during 1985, as compared to $3.1 billion in 1980--an average increase of fifty-eight percent.

Because total resources have been diminishing in real terms, we have taken seriously the need to constrain cost increases while continuing to improve OMB's effectiveness and productivity. Effective management has allowed us to hold growth in all of our major expenditure classes to less than the rate of inflation, that is a decline in real terms. Following are a few examples of administrative actions we are taking to hold down cost increases from 1984 to 1985:

- Personnel Compensation and Benefits. On a current services basis, these costs would have increased by $526,000 in 1985. We are only requesting $279,000, because within-grade increases and promotions will be offset by hiring new employees at lower grades.
- SLUC. On a current services basis, SLUC costs would increase by $2.5 million in 1985. Due to a 14% per capita reduction in office space, we are requesting funding for only $2.1 million of this increase.
- Printing is an example of an area where we have seen a return on investment in computer capability. Two years ago, we budgeted $711,000 for printing the President's budget. This year we budgeted $601,000. Next year, we estimate that our costs will only be $436,000. These savings result from the use of an automated photocomposition process, increased use of electronic word processing, and streamlining of the editing and distribution processes.

Planned savings in lease costs, communications charges, and the purchase of supplies and equipment also play a significant role in our efforts to constrain our budget totals. The 1985 current services estimate for these items is $3.5 million, but we are only requesting $3.0 million. This one-half million dollar savings reflects continuing management and administrative initiatives in the following areas:

- Communications and Equipment Leases. In 1981, OMB spent $2.0 million for communications, utilities, and equipment leases. In 1985, we estimate our costs to be $1.5 million. These savings have resulted from decisions to buy rather than lease equipment, when it was more cost efficient to do so. If the 1981 spending level had been allowed to increase at an annual rate of four percent, we would have spent an additional $2.5 million over the four-year period.
- Contractual Support. In 1981, OMB spent $3.2 million for computer services, building and equipment maintenance, and other contractual support. In 1985, we estimate our costs to be $3.0 million. These savings are due to a reduction in our expenditures for timesharing and other contract support. If the 1981 spending level had escalated at an annual rate of four percent, we would have needed an additional $3.3 million over the four-year period.

We plan to continue our efforts to reduce costs wherever possible and to optimize the mix of people and machines. In fact, we are in the process of developing a long-range office automation plan for OMB that will ensure that this objective is met. Our 1985 request reflects a concerted effort to build on our past record of achieving economies, while improving our ability to serve the President efficiently and effectively.

UNANTICIPATED NEEDS

In 1940, Congress recognized the need to provide the President with limited funds to meet unplanned and unbudgeted exigencies. With the exception of three years since 1962,

$1,000,000 in funding has been provided to meet unanticipated Presidential needs. The Fiscal Year 1985 Budget again requests $1,000,000 for the President's Unanticipated needs account.

Funds totaling $604,000, $223,000, $288,000 and $429,000 have been expended from this account in fiscal years 1980-1983, respectively. Extreme prudence is used before making an allocation from the fund. Each request is reviewed by our budget examiners to ensure that:

-- the purpose for the funding is consistent with Administration policies and objectives,

-- the estimate of need is accurate, and

-- no alternative source of funding is available.

The request is then sent to the President with our recommendation for action. The President decides whether the allocation will be made. This process ensures that allocations are made only to meet unanticipated needs of the highest priority.

While it is not possible to predict how the 1985 funds will be expended, we can cite examples of how these funds have been used in prior years. In fiscal year 1983, allocations were made to the Special Task Force on Crime in South Florida, the Agency for International Development to fund the bipartisan "Democracy Study", and the White House Office for the President's Private Sector and Quality Education initiatives.

Only one allocation has been made so far in fiscal year 1984: $375,000 has been allocated to the White House Office to provide funding for the transfer of computer systems from the White House Communications Agency to the EOP Computer Center. This transfer will provide more cost effective and efficient computer operations by consolidating all EOP administrative systems into one operation.

OFFICE OF FEDERAL PROCUREMENT POLICY

STATEMENT OF DONALD E. SOWLE, ADMINISTRATOR FOR FEDERAL PROCUREMENT POLICY

ACCOMPANIED BY DAVID F. BAKER, ASSOCIATE ADMINISTRATOR FOR MANAGEMENT CONTROLS

BUDGET REQUEST

Senator ABDNOR. Next we will hear from Mr. Sowle, Administrator of the Office of Federal Procurement Policy.

We are moving right along today, Mr. Sowle. We are all under the gun for time.

This committee was notified we have a matter that takes priority, I guess, over our time.

Your statement is not very lengthy, I see, so you proceed as you wish then.

Mr. SOWLE. Thank you very much, Mr. Chairman.

If you will let me off as easy as you did Mr. Stockman, I will be pleased to give you a short statement and answer your questions briefly and leave your time for other things.

I do appreciate the opportunity to be here this morning. I would like to introduce Mr. David Baker, who is the Associate Administrator for Management Controls in the Office of Federal Procurement Policy, and I would like to summarize my statement, if I may.

Our estimated requirements for fiscal year 1985 are $1,615,000, which represents a decrease of $941,000, or 36 percent, from our estimated requirements for the current fiscal year.

Our fiscal year 1985 permanent staffing level is 25 permanent personnel down from 41 in fiscal year 1984. I would hasten to point out, Mr. Chairman, that the main cause for these reductions is that the Federal Acquisition Institute, which we talked about briefly last year, was actually transferred from the Office of Federal Procurement Policy to the General Services Administration. This entailed a transfer of some 16 permanent personnel and $682,000 to the GSA.

Another factor contributing to our reduced request is that we are making a concerted effort, along the lines that you were just discussing with Mr. Stockman, to reduce our average grade. The salary costs of our staff this year, for example, are being reduced. We have filled two vacant GS-15 positions with GS-13's and one GS-8 secretarial position with a GS-5. We are taking these actions very deliberately so that we do not diminish the effectiveness of the office while we do reduce the grade level.

PLANS AND ACCOMPLISHMENTS

Mr. Chairman, the rest of my statement deals with what we have been doing and what we propose to do in the future. I would summarize it briefly by saying that mostly we have been working on the procurement reforms we started at the request of the Congress and the President back in 1981 and 1982.

We do have a great deal of action going in many of these areas. We have issued several procurement policies that we feel are going to impact very well on procurement. For example, we issued a policy on noncompetitive procurements in February 1984 which we think will add a great deal to the effectiveness of procurement by the Federal agencies and reduce costs to the Federal Government.

FEDERAL ACQUISITION REGULATION

We also have the Federal acquisition regulation, which we talked about last year, coming into place on April 1, 1984. It represents a tremendous step forward in simplifying procurement regulations and making them more readable—not only for Government people, but for contractors as well.

We also have had a great impact, I think, in working with the Office of Personnel Management on the classification and qualification standards for procurement people in the GS–1102 series. These standards will help materially in bringing forth the reforms that we are looking for in Federal procurement.

PROCUREMENT REFORM PROGRAM

These efforts were begun largely as a result of our proposal for a uniform Federal procurement system. That proposal was based upon a request that the Congress made to the Office of Federal Procurement Policy to submit a proposal describing a new procurement system, a new management system for procurement, and the identification of those laws that should be changed in order to improve the procurement process. The proposal was submitted to the Congress back in 1982, and President Reagan, in Executive Order 12352, directed us to proceed with those things that could be done without legislative change.

So we have a continuing reform program in which we work with some 50 procurement executives that have been appointed in all the major agencies during the last year or two to serve as the anchor for improvements in procurement.

The requirement for a procurement executive has been put into statute by the Congress: Procurement executives are required to be appointed by all executive agencies. We will continue to work with them on procurement reforms during all of fiscal year 1985.

We have about 150 people from the agencies working with us on this reform program. In addition, we now have three separate studies that the Congress has asked us to conduct. Conducting studies is not normally our business, but we have pulled together some 35 to 40 people from the agencies for this purpose. One study is on the procurement of spare parts; the second one is on end-of-year spending; and the third relates to competition in subcontracting.

So, again, Mr. Chairman, I think we have our work cut out for us. I am confident that agency implementation of this comprehensive system of procurement reforms we have initiated, which I have just referred to, will promote economy, efficiency, and effectiveness in the Federal procurement process.

I can assure you, Mr. Chairman, that the modest appropriation, the $1,615,000, will be well spent and returned to the taxpayer many fold.

I would be pleased to answer any questions you may have, Mr. Chairman.

OFPP STAFFING SIZE

Senator ABDNOR. To be perfectly honest, you have answered most of the questions I had thought I would ask you. You did a fine job.

How many people do you have working for you?

Mr. SOWLE. We have a total of 25 authorized and we have 22 on board.

Senator ABDNOR. This is 16 positions you spoke about?

Mr. SOWLE. Sixteen positions were in what we call the Federal Acquisition Institute, which was a part of the Office of Federal Procurement Policy. Those 16 positions were transferred to the General Services Administration as required by law.

Senator ABDNOR. And so you are left with the 25?

Mr. SOWLE. We have 22 on board and 25 authorized.

Senator ABDNOR. Fine. I know you do not legally have anything to do with military. You are just looking at the procurement in some of the small parts, is that it?

SPARE PARTS STUDY

Mr. SOWLE. Yes; one of the three studies deals with DOD spare parts. We normally do not get involved in studies because they get into the operations of the departments and our law precludes our becoming involved in agency procurement operations. But the Congress specifically asked us to take a look at the procurement of spare parts to see what was being done by the Department of Defense, and whether or not in our judgment, the actions being taken would be adequate to clear up the problems observed lately, and whether or not their actions would be lasting.

Senator ABDNOR. You have gone into it some already, have you?

Mr. SOWLE. Well, we have five teams that have been working. These teams are made up mostly of people on loan to us. Each team is headed by a member of the Office of Federal Procurement Policy. We have been collecting data, making field visits. We are now at the position where we are analyzing the data that we have gathered.

Senator ABDNOR. Very interesting. Well, we certainly thank you for your attendance here today. Again, this seems to be an easy day for groups appearing before us.

Mr. Sowle. Thank you so much.

PREPARED STATEMENT AND ADDITIONAL COMMITTEE QUESTIONS

Senator Abdnor. Thank you very much for coming and for the fine testimony you gave here.

Mr. Sowle. Thank you very much, Mr. Chairman.

Senator Abdnor. We will insert your statement and there will be some additional questions that we will submit to you.

[The information follows:]

STATEMENT OF DONALD E. SOWLE

I APPRECIATE THE OPPORTUNITY TO APPEAR BEFORE THIS SUBCOMMITTEE TO DISCUSS THE FISCAL YEAR 1985 APPROPRIATION FOR THE OFFICE OF FEDERAL PROCUREMENT POLICY.

OUR ESTIMATED REQUIREMENTS FOR FY 1985 ARE $1,615,000, WHICH REPRESENT A DECREASE OF $941,000, OR 36% FROM OUR ESTIMATED REQUIREMENTS, FOR THE CURRENT FISCAL YEAR. OUR FY 1985 PERMANENT STAFFING LEVEL IS 25 PERMANENT PERSONNEL--DOWN FROM 41 IN FY 1984.

THE PRINCIPAL CAUSE FOR OUR REDUCED REQUIREMENTS IN FY 85 IS THAT THE FEDERAL ACQUISITION INSTITUTE, FORMERLY A PART OF THE OFFICE OF FEDERAL PROCUREMENT POLICY, WAS TRANSFERRED ON JANUARY 7, 1984, TO THE GENERAL SERVICES ADMINISTRATION. THIS ACTION, WHICH WAS TAKEN IN ACCORDANCE WITH THE REQUIREMENT OF PUBLIC LAW 98-191, ENTAILED THE TRANSFER OF 16 PERMANENT PERSONNEL AND $682,000 IN FY 84 OPERATING FUNDS. THE INSTITUTE HAS BEEN PHYSICALLY RELOCATED IN THE MAIN GSA BUILDING AND ITS APPROPRIATION WILL BE REFLECTED IN THE GSA BUDGET REQUEST.

ANOTHER FACTOR CONTRIBUTING TO OUR REDUCED REQUEST FOR FY 85 IS THAT WE ARE MAKING A CONCERTED EFFORT TO REDUCE OUR AVERAGE GRADE AND THUS, THE SALARY COSTS OF OUR STAFF. THIS YEAR, FOR EXAMPLE, WE HAVE FILLED TWO VACANT GS-15 POSITIONS WITH GS-13s, AND ONE GS-8 SECRETARIAL POSITION WITH A GS-5. THESE ACTIONS ARE BEING TAKEN IN A VERY DELIBERATE FASHION TO ASSURE THAT THE PROFESSIONAL COMPETENCE OF OUR SMALL STAFF IS NOT DIMINISHED WHILE WE WORK TO

MEET THE PRESIDENT'S GOAL OF REDUCING THE OVERALL COST OF GOVERNMENT.

OFPP - BACKGROUND AND MISSION

THE COMMISSION ON GOVERNMENT PROCUREMENT, IN ITS 1972 REPORT TO THE CONGRESS, RECOMMENDED THE ESTABLISHMENT OF THE OFFICE OF FEDERAL PROCUREMENT POLICY (OFPP) BECAUSE OF THE MAGNITUDE AND BUDGETARY SIGNIFICANCE OF THE PROCUREMENT FUNCTION AND THE VOID IN POLICY LEADERSHIP TO OVERSEE AND DIRECT IT. TWO YEARS LATER, PUBLIC LAW 93-400, "THE OFFICE OF FEDERAL PROCUREMENT POLICY ACT," WAS ENACTED. IT ESTABLISHED THE OFPP IN THE OFFICE OF MANAGEMENT AND BUDGET (OMB) TO PROVIDE OVERALL DIRECTION OF PROCUREMENT POLICY, TO PRESCRIBE PROCUREMENT POLICIES, REGULATIONS, PROCEDURES AND FORMS FOR EXECUTIVE AGENCIES, AND TO COORDINATE PROGRAMS TO IMPROVE THE QUALITY AND PERFORMANCE OF PROCUREMENT PERSONNEL. THE OFFICE WAS AUTHORIZED FOR A PERIOD OF FIVE YEARS WITH THE FUNDAMENTAL OBJECTIVE OF IMPROVING THE ECONOMY, EFFICIENCY AND EFFECTIVENESS OF THE PROCUREMENT OF PROPERTY AND SERVICES BY EXECUTIVE AGENCIES.

IN 1979, THE OFFICE WAS REAUTHORIZED BY THE CONGRESS FOR FOUR ADDITIONAL YEARS, WITH THE ENACTMENT OF PUBLIC LAW 96-83, "THE OFFICE OF FEDERAL PROCUREMENT POLICY ACT AMENDMENTS OF 1979." THE ACT CONFIRMED THE FUNDAMENTAL MISSION OF THE OFFICE, BUT WITHDREW OFPP'S AUTHORITY TO ISSUE PROCUREMENT REGULATIONS -- IN FAVOR OF RELYING ON THE PROCUREMENT REGULATORY AGENCIES (THE DEPARTMENT OF DEFENSE, GENERAL SERVICES ADMINISTRATION AND NATIONAL AERONAUTICS AND SPACE ADMINISTRATION) TO PERFORM THAT FUNCTION. MORE

IMPORTANT, THE ACT ESTABLISHED, AS OFPP'S MAJOR IMMEDIATE PRIORITY THE DEVELOPMENT OF A COMPREHENSIVE PROPOSAL FOR A "UNIFORM PROCUREMENT SYSTEM." THAT PROPOSAL WAS SUBSEQUENTLY PROVIDED TO THE CONGRESS IN FEBRUARY 1982.

OFPP WAS AGAIN REAUTHORIZED (THROUGH 1987) BY PUBLIC LAW 98 191, WHICH THE PRESIDENT SIGNED ON DECEMBER 1, 1983. THAT STATUTE CONFIRMED OFPP'S TRADITIONAL MISSION AND FUNCTIONS. IN PARTICULAR, IT REAFFIRMED THE ADMINISTRATOR'S AUTHORITY TO ISSUE POLICIES "WHICH SHALL BE FOLLOWED BY ... EXECUTIVE AGENCIES ...." IT ALSO REINSTATED THE OFFICE'S REGULATORY AUTHORITY, BUT LIMITED ITS USE TO THOSE SITUATIONS WHEN THE PROCUREMENT REGULATORY AGENCIES ARE UNABLE TO AGREE ON (OR FAIL TO ISSUE) REGULATIONS IN A TIMELY MANNER. AS I NOTED EARLIER, THE STATUTE ALSO TRANSFERRED THE FEDERAL ACQUISITION INSTITUTE FROM OFPP TO THE OFFICE OF THE ADMINISTRATOR, GENERAL SERVICES ADMINISTRATION, AND CHARGED OFPP WITH THE CONDUCT OF THREE PROCUREMENT STUDIES DURING 1984, NAMELY, A REVIEW OF DOD SPARE PARTS PROCUREMENT, AN ANALYSIS OF DOD's YEAR END SPENDING PRACTICES, AND A REVIEW OF COMPETITION IN SUBCONTRACTING.

FEDERAL PROCUREMENT REFORM

FOR THE LAST THREE YEARS THE OFFICE'S TOP PRIORITY HAS BEEN TO DEVELOP AND OVERSEE THE IMPLEMENTATION OF SPECIFIC REFORMS CALLED FOR BY THE PRESIDENT AND THE CONGRESS. THESE REFORMS, MOST OF WHICH WERE FIRST ARTICULATED IN THE ADMINISTRATION'S PROPOSAL FOR A UNIFORM FEDERAL PROCUREMENT SYSTEM, (UFPS), HAVE BECOME FUNDAMENTAL COMPONENTS OF THE PRESIDENT'S REFORM '88 MANAGEMENT IMPROVEMENT PROGRAM.

THE UFPS PROPOSAL CALLED FOR REFORMS IN FEDERAL PROCUREMENT SYSTEMS AND IN THE MANAGEMENT STRUCTURES THAT SUPPORT AND DIRECT THOSE SYSTEMS. SPECIFICALLY, THE PROPOSAL ADVOCATED IMPROVING PROCUREMENT BY (1) SIMPLIFYING THE PROCUREMENT SYSTEM AND MAKING IT MORE RESPONSIVE, (2) ENHANCING THE PROFESSIONALISM OF THE WORK FORCE, (3) EXPANDING COMPETITION, AND (4) INCREASING THE POTENTIAL FOR INDIVIDUAL INITIATIVE, JUDGMENT AND ACCOUNTABILITY. THE PROPOSAL ALSO CONTAINED NUMEROUS RECOMMENDATIONS FOR UPDATING THE STATUTORY BASE FOR PROCUREMENT.

THIS REFORM PROCESS WAS NEXT STIMULATED BY PRESIDENT REAGAN'S ISSUANCE OF EXECUTIVE ORDER 12352 ON FEDERAL PROCUREMENT REFORMS IN MARCH 1982. THE ORDER DIRECTED THE HEADS OF AGENCIES TO IMPLEMENT THE PRINCIPAL ADMINISTRATIVE REFORMS DESCRIBED IN THE UFPS PROPOSAL, INCLUDING THE APPOINTMENT OF A PROCUREMENT EXECUTIVE IN EACH AGENCY, ESTABLISHING CLEAR LINES OF CONTRACTING AUTHORITY, SIMPLIFYING SMALL PURCHASE PROCEDURES, LIMITING NON-COMPETITIVE ACTIONS AND REDUCING ADMINISTRATIVE COSTS AND BURDENS. SINCE ISSUANCE OF THE ORDER, WE HAVE WORKED CLOSELY WITH THE AGENCIES TO DEVELOP THE NECESSARY GUIDANCE FOR IMPLEMENTING THE PRESIDENT'S REFORM PROGRAM. SIX INTERAGENCY TASK GROUPS, INVOLVING OVER 150 PERSONS, HAVE PREPARED VALUABLE GUIDANCE PACKAGES WHICH HAVE BEEN TRANSMITTED TO THE AGENCIES.

REFORM ACHIEVEMENTS

BECAUSE OF THE SIZE AND COMPLEXITY OF THE PROCUREMENT PROCESS, MANY OF THE REFORMS HAVE YET TO BE IMPLEMENTED. HOWEVER, THERE HAVE BEEN SEVERAL MAJOR ACHIEVEMENTS, INCLUDING:

- DEVELOPMENT AND ISSUANCE OF THE FEDERAL AQUISITION REGULATION, (FAR), WHICH CONSOLIDATES GOVERNMENT-WIDE PROCUREMENT REGULATIONS INTO A SINGLE, SIMPLIFIED AND UNDERSTANDABLE REGULATION. THE FAR, WHICH WILL BECOME EFFECTIVE FOR ALL AGENCIES ON APRIL 1, 1984, REPRESENTS A REDUCTION OF 62% IN THE VOLUME OF PRIMARY PROCUREMENT REGULATIONS AND IS EXPECTED TO ELIMINATE NEARLY HALF OF ALL AGENCY SECONDARY AND LOWER LEVEL REGULATIONS.

- ISSUANCE OF OFPP POLICY LETTER 83-2 ON MAY 25, 1983, WHICH REQUIRES ALL AGENCIES TO PUBLISH PROPOSED POLICIES AND REGULATIONS AND TO SOLICIT THE VIEWS OF ALL INTERESTED PARTIES. THIS IS AN IMPORTANT FEATURE OF THE PROCUREMENT REFORM EFFORT IN THAT IT WILL RESULT IN THE ISSUANCE OF MORE EFFECTIVE POLICIES AND REGULATIONS WHILE KEEPING THE NUMBER OF SUCH POLICIES AND REGULATIONS TO A MINIMUM.

- ISSUANCE OF POLICY LETTER 84-2 ON FEBRUARY 27, 1984, RESTRICTING USE OF NON-COMPETITIVE PROCUREMENT PROCEDURES. THIS POLICY LETTER IMPLEMENTS THE PRESIDENT'S DIRECTION THAT COMPETITION BECOME THE PREFERRED METHOD OF PROCUREMENT. IN ADDITION TO ESTABLISHING A FINITE LIST OF CIRCUMSTANCES UNDER WHICH NON-COMPETITIVE PROCUREMENTS MUST BE JUSTIFIED, THE POLICY LETTER REQUIRES THAT THE PROCUREMENT REGULATORY AGENCIES (DOD, GSA & NASA) PUBLISH TIGHT CONTROLS OVER NON-COMPETITIVE PROCUREMENT IN THE FEDERAL ACQUISITION REGULATION AND THAT THE AGENCY SENIOR PROCUREMENT EXECUTIVE ESTABLISH INTERNAL PROCEDURES FOR REVIEW AND APPROVAL OF THE JUSTIFICATIONS FOR NON-COMPETITIVE PROCUREMENTS.

- REVISION OF THE CLASSIFICATION AND QUALIFICATION STANDARDS FOR PROCUREMENT PERSONNEL (GS 1102 SERIES). THE REVISED STANDARDS, WHICH WERE RECENTLY PUBLISHED BY THE OFFICE OF PERSONNEL MANAGEMENT, SHOULD HAVE THE EFFECT OF INCREASING THE COMPETENCE AND PROFESSIONALISM OF THE WORK FORCE AND, THUS, SERVE AS A MAJOR CONTRIBUTION TO THE PROCUREMENT REFORM PROCESS.

OFPP OPERATIONS IN FY 1985

TO BE EFFECTIVE, THE PROCUREMENT REFORM MEASURES WE ARE PURSUING MUST BE IMPLEMENTED INCREMENTALLY; AND TO BECOME PERMANENT, THEY MUST BE INSTITUTIONALIZED. THIS, IN EFFECT, IS OUR CHARTER FOR FY 1985. THE PROCUREMENT REFORM ASPECTS OF REFORM '88 CONTINUE TO BE OUR TOP PRIORITY AS WE MOVE OUT OF THE REFORM DEVELOPMENT STAGE TO THE STAGE OF ASSISTING AND OVERSEEING AGENCY IMPLEMENTATION. WE ARE FORTUNATE IN THAT THE KEY INSTITUTIONALIZING FEATURE OF THE REFORM PROCESS - THE AGENCY PROCUREMENT EXECUTIVES - IS IN PLACE. WE WILL BE WORKING CLOSELY DURING FY 1985 WITH THE NEARLY 50 PROCUREMENT EXECUTIVES TO IMPROVE THE OVERALL EFFECTIVENESS AND EFFICIENCY OF THE PROCUREMENT PROCESS.

A NEW WORKLOAD, WHICH STEMS FROM PUBLIC LAW 98-191, WILL ALSO BECOME APPARENT IN THE COMING MONTHS AND DURING FY 1985. THE STATUTE AUTHORIZES OFPP TO DEVELOP INNOVATIVE METHODS AND PROCEDURES TO BE TESTED BY SELECTED EXECUTIVE AGENCIES. WE WILL BE CONFERRING WITH THE AGENCIES IN THE NEAR FUTURE FOR THE PURPOSE OF IDENTIFYING CANDIDATE PROGRAMS FOR TEST AND EVALUATION DURING FY 1985.

THERE WILL, OF COURSE, BE MANY OTHER PROJECTS AND PROGRAMS WHICH THE OFFICE WILL ADDRESS IN FULFILLING ITS STATUTORY MISSION AND WHICH ARE DESCRIBED MORE FULLY IN OUR ANNUAL REPORT TO THE CONGRESS WHICH ACCOMPANIES OUR WRITTEN BUDGET JUSTIFICATION. TYPICAL OF THESE IS THE ONGOING NEED TO KEEP OUR POLICY ISSUANCES CURRENT AND RESPONSIVE. DURING THE COMING YEAR, WE ARE PLANNING, IN RESPONSE TO RECOMMENDATIONS OF THE ADMINISTRATION'S REFORM '88 PROGRAM ON MANAGEMENT IMPROVEMENT, TO REVIEW AND REVISE SEVERAL OFPP POLICY LETTERS AND OMB CIRCULARS FOR WHICH WE ARE RESPONSIBLE. I INTEND TO RELY HEAVILY ON INTERAGENCY TASK GROUPS TO ASSIST IN THIS PROGRAM. THIS WILL PERMIT US TO PLAY THE ROLE CONGRESS INTENDED, NAMELY, THAT OF POLICY LEADER, CATALYST AND OVERSEER. IT WILL ALSO PERMIT OFPP TO OPERATE WITH A VERY SMALL PERMANENT STAFF OF 25 PROFESSIONAL AND CLERICAL EMPLOYEES.

SUMMARY

I AM CONFIDENT THAT AGENCY IMPLEMENTATION OF THE COMPREHENSIVE SYSTEM OF PROCUREMENT REFORMS WE HAVE INITIATED - SEVERAL OF WHICH I HAVE OUTLINED FOR YOU - WILL PROMOTE ECONOMY, EFFICIENCY AND EFFECTIVENESS IN THE PROCUREMENT OF PROPERTY AND SERVICES FOR THE EXECUTIVE BRANCH. THIS PROGRAM CANNOT BE ACCOMPLISHED OVERNIGHT, BUT AT LONG LAST, WE HAVE A SOLID FOUNDATION UPON WHICH TO BUILD. WITH YOUR HELP AND THE CONTINUED COOPERATION OF THE EXECUTIVE AGENCIES, I CAN ASSURE YOU THAT THE MODEST APPROPRIATION REQUEST FOR FY 1985 WILL BE RETURNED TO THE AMERICAN TAXPAYER MANY-FOLD.

YOU MAY ALSO BE ASSURED THAT I WILL ENDEAVOR TO PROVIDE, TO THE BEST OF MY ABILITY, THE DIRECTION AND LEADERSHIP NECESSARY FOR THE ATTAINMENT OF THE GOALS WHICH THE CONGRESS AND THE ADMINISTRATION HAVE SET.

MR CHAIRMAN, I WILL BE HAPPY TO RESPOND TO ANY QUESTIONS YOU OR MEMBERS OF THE SUBCOMMITTEE MAY HAVE.

Questions Submitted by Senator Mack Mattingly

CONSULTING SERVICES

Question No. 1: Is OFPP involved in what I understand to be an ongoing effort by the White House to draft and issue an Executive order that establishes procedures and guidelines for use by Executive agencies in contracting for consultant and related services?

Answer: Yes, OFPP is involved in a supportive role with the management-side of OMB in the development of an Executive order that establishes procedures and guidelines for agencies' use in contracting for these services.

Question No. 2: If so, what are the specific responsibilities of the OFPP in this process?

Answer: In addition to assisting in the preparation of the Executive order, OFPP is working with the General Services Administration to initiate the necessary changes to the Federal Procurement Data System to record data on contracts for consultant and related services. OFPP is also supporting the preparation of a request to the agencies for expenditure estimates.

Question No. 3: Would you explain for the record the different methodologies used in compiling federal expenditure estimates from the budget estimates and from the Federal Procurement Data System?

Answer: Much of the difference in methodologies can be attributed to the inherently different reporting structures and reporting times needed by the budgeting and procurement systems. The Federal Procurement Data System (FPDS) is a contract award data system: procurement personnel enter into the FPDS the total amounts that may be obligated over the life of the contract. Entries into the system are coded in accordance with the major purpose of the contract requirement, for example, studies and analyses, management studies, and consultants.

These entries are processed at the time of award, before contract performance. The budget staff, on the other hand, report past year data after the contract is concluded and according to legal requirements on the timing of the recording of actual expenditures. As a result, the two systems answer two different questions.

- The FPDS data answers the question: What was the value of contracts awarded, i.e., the total potential obligations?
- The actual year budget data answers the question: What happened to the contracts that were awarded, i.e., the actual expenditures including any adjustments?

Therefore, the difference in the amounts reported under the two systems reflect program changes, multi-year contracts, and funding contraints. For example, a three-year contract for $1.5 million will be coded in the FPDS as a one time $1.5 million obligation, but actual expenditures may average $500 thousand for each of three years and be so recorded in the budget data system. In summary, the budget and procurement personnel report the data pertinent to their operations at different times with different reporting instructions, and for different purposes. Under the circumstances, the data will not be identical in most instances.

Question No. 4: Why is there in many cases such a great disparity in the estimates obtained from these two sources, for example on consultant expenses, government wide, in FY 83?

Answer: As explained in the answer to question #3, the two systems answer two different questions.

Question No. 5: Would you provide for the record the actual or estimated amounts spent on consultant and related services for FY 83, 84, and 85. Would you provide these figures based on estimates for the President's budget request and from estimates based on data assembled in the FPDS?

Answer: There are no Government-wide estimates of expenditures compiled for FY 1983 or 1984 other than what was previously submitted to the Senate Committee on Appropriations as required by the Committee Report on the 1983 Treasury, Postal Service, and General Government Appropriation Bill. (Our report was forwarded to the Committee on May 25, 1983, by Director David Stockman. Additional copies will be provided, if required.) With respect to FY 1983 actual obligations, we will have that data shortly from the FPDS and will be pleased to furnish it to you as soon as it is compiled. No estimates of expenditures have been made for FY 1985 except what may appear in individual agency budgets as presented to their respective subcommittees of the Committee on Appropriations.

Question No. 6: What legislative remedies suggest themselves to you as methods by which the Congress can correct the seeming inability of the executive branch to accurately determine how much money is annually spent on consultant and related services?

Answer: We do not see the need for legislation in this area. Legislation can not correct the inherent differences between the budget and FPDS reporting systems. Both systems produce useful data - the user must choose the system most meaningful for his or her purpose.

Question No. 7: Is the data that was assembled and used during the consideration of the consultant issue by the Cabinet Council on Management and Administration available to the Subcommittee for its review?

Answer:	The Cabinet Council on Management and Administration is still in the process of developing Presidential policy on this issue. Until a final policy is issued, in this case in the form of an Executive order, internal issue papers, data and memoranda will not be released.
Question No. 8:	If not, can you provide the subcommittee with similar data relating to consultant expenses obtained or compiled from sources other than the Cabinet Council?
Answer:	The data used by the Cabinet Council was extrapolated from the FY 81 and FY 82 actual obligation data contained in the FPDS. Director Stockman's reports on administrative expenses for those two years were also based on FPDS data and were previously furnished to the Committee. As noted in answer to Question No. 5, we will provide you with the FY 83 actual obligation data from the FPDS when it becomes available.

SUBCOMMITTEE RECESS

Senator ABDNOR. This concludes our morning session.

The subcommittee will stand in recess until 2 p.m. when we will resume the Treasury Enforcement Agency.

[Whereupon, at 10:35 a.m., the subcommittee recessed, to reconvene at 2 p.m. the same day.]

(AFTERNOON SESSION, 2:40 P.M., WEDNESDAY, MARCH 21, 1984)

DEPARTMENT OF THE TREASURY

BUREAU OF ALCOHOL, TOBACCO AND FIREARMS

STATEMENT OF JOHN M. WALKER, JR., ASSISTANT SECRETARY, ENFORCEMENT AND OPERATIONS

ACCOMPANIED BY:

- **STEPHEN E. HIGGINS, DIRECTOR, BUREAU OF ALCOHOL, TOBACCO AND FIREARMS**
- **WILLIAM DRAKE, ASSOCIATE DIRECTOR, COMPLIANCE OPERATIONS**
- **PHILLIP McGUIRE, ASSOCIATE DIRECTOR, LAW ENFORCEMENT**
- **BARBARA POMEROY, COMPTROLLER**
- **PAUL GENTILLE, FINANCIAL MANAGER**
- **ARTHUR D. KALLEN, DIRECTOR, OFFICE OF BUDGET AND FINANCE, DEPARTMENT OF THE TREASURY**

OPENING REMARKS

Senator ABDNOR. I apologize for being late but we did have voting going on on the floor.

This afternoon we will begin our overview of the Treasury Enforcement Bureau. We will hear from Mr. John Walker, the Assistant Secretary of the Treasury for Enforcement and Operation. He is accompanied by Mr. Stephen E. Higgins, Director of the Bureau of Alcohol, Tobacco and Firearms, and Mr. Charles Rinkevich, Director of the Federal Law Enforcement Training Center; Mr John Simpson, Director of the Secret Service; and Mr. William von Raab, Commissioner of the U.S. Customs Service.

I understand Mr. Walker will make a short opening statement followed by each agency head for a more definitive statement.

Incidentally, I will ask my staff to keep their eye on the clock today for votes on the floor.

Before we begin, I want to say a substantially revised air program was presented to the House Subcommittee on Government Information and Individual Rights this morning by the Deputy Secretary of the Treasury. This subcommittee was holding a meeting at that time, so I have been unable to review that proposal and, therefore, when the Customs portion of the testimony is presented, I will not ask questions about the air program. I will withhold any questioning until I have had a chance to review the new proposal. It will, therefore, be necessary for the subcommittee to hold another session with the Customs Service to discuss the air program at a little later time.

With that, Mr. Secretary, we will call on Mr. Walker, I guess.

OPENING REMARKS BY MR. WALKER

Mr. WALKER. Thank you very much, Mr. Chairman.

I am pleased to appear before you today in support of the annual appropriation request of the Bureau of Alcohol, Tobacco and Firearms for fiscal year 1985. With me today are the Director, Stephen E. Higgins, and staff members from ATF. We also have with us today Arthur D. Kallen, who is the Director of the Office of Budget and Finance, Department of the Treasury.

The fiscal year 1985 request is $161,771,000 and 2,777 average positions. Included in this amount are two program increases. They are $2 million for a digital voice privacy radio communications system and $1 million for additional permanent change of station moves. This budget also reduces staffing by 143 positions. This reduction is primarily in the alcohol regulatory enforcement area. The Bureau plans to be more selective in its inspections, deemphasizing inspections for local, low risk activities.

The Bureau continues to seek ways to improve its productivity and maintain its effectiveness in this period of very scarce resources. As you know, during the past year, there have been many changes to streamline the operations of the Bureau. The number of regulatory and administrative regions was reduced from seven to five. Headquarters criminal and regulatory enforcement activities were reorganized along program rather than functional lines, the laboratory system was realined with the closings of the Philadelphia and Cincinnati laboratories, and financial management activities were centralized at headquarters. Recently, the four regional offices for investigations were abolished in an effort to improve field communication and control.

Since the end of fiscal year 1982, nearly 50 posts of duty and area offices have been closed and 12 have been opened. Relocations of staff resources such as these are needed to gain full productivity and meet the Nation's changing violent crime trends and shifts in population centers. Permanent change of station moves will be necessary at a greater than normal rate during fiscal year 1985.

LAW ENFORCEMENT

The law enforcement mission of ATF is a critical one. The Bureau remains in the forefront of the President's fight against crime. ATF participates in the President's organized crime and drug enforcement task forces, as well as the south Florida task force under the leadership of the Vice President. ATF's agents in these forces conduct firearms and explosives investigations against violent crime and drug trafficking organizations. ATF's special agents have earned the respect and admiration of the law enforcement community for their work against outlaw motorcycle organizations, street and prison gangs, and other organized groups who illegally use or traffic in firearms and explosives to support and protect their illegal enterprises. In addition to securing the arrest and prosecution of gang members and narcotics traffickers for violations of Federal firearms and explosives statutes, this investigative work is invaluable in accumulating critical intelligence data on these violators.

In order to support the major fight against narcotic traffickers, ATF is redirecting 33 agents from its arson program to its firearms program. While this is a reduction in the arson program, we believe that the training being provided State and local enforcement agencies will allow this reduction with minimal impact. The ATF is highly regarded for its arson investigation course that allows State and local agencies to enhance their capabilities in this area.

In fulfilling its enforcement role against crimes involving firearms, explosives, and arson, ATF must confront the Nation's most hardened criminal elements. An analysis over a 2-year period reveals that 86 percent of ATF's defendants had criminal records and 60 percent were felons. Because of the nature of the serious crimes which this Bureau investigates, ATF's agents are continually exposed to life-threatening situations. During the past fiscal year, two of our special agents were killed in the line of duty. The danger that our agents face in their day-to-day criminal investigative activities cannot be emphasized enough. Their work takes place under volatile and unpredictable conditions, against an armed and sophisticated enemy. Because of this engagement in volatile, tactical investigative operations, I wholeheartedly support ATF's request for a radio voice privacy system.

COMPLIANCE OPERATIONS

In addition to its criminal jurisdiction, ATF is responsible for regulation of the alcohol, tobacco, firearms, and explosive industries and must insure that all alcohol and tobacco excise taxes are collected. These taxes are estimated to be $10.2 billion in fiscal year 1985. ATF's regulatory role also requires insuring fair trade practices and maintaining high levels of compliance with Federal laws.

ATF is deeply committed to deregulation wherever possible. Historically, the industries with which we are concerned have been heavily regulated. Therefore, we continue to view deregulation as an important priority. While regulation of sensitive industries for which the Bureau has responsibility cannot be eliminated entirely, we believe that regulations and paperwork can be reduced while maintaining an efficient and effective administration of Federal statutes.

CONCLUSION

Overall, this budget is in furtherance of the Secretary's and the President's goals for efficient operations and fiscal restraints.

Mr. Chairman, this concludes my opening statement.

I would now like to introduce Steve Higgins, Director of ATF, who will introduce his staff and provide you with more details on their budget request. Then we would both be happy to answer any questions you or other members of the committee may have.

Senator ABDNOR. Thank you.

We welcome you to the committee, Mr. Higgins, and remind all of you the entire statements will be made a part of the record.

OPENING REMARKS BY MR. HIGGINS

Mr. HIGGINS. Thank you, Mr. Chairman.

It is indeed a pleasure to appear before you in support of the fiscal year 1985 budget request for the Bureau of Alcohol, Tobacco and Firearms.

With us this afternoon are my colleagues, Mr. William Drake, who is Deputy Director and Associate Director, Compliance Operations; Mr. Phillip McGuire, Deputy Director and Associate Director, Law Enforcement; Ms. Barbara Pomeroy, Comptroller; and Mr. Paul Gentille, Financial Manager.

The fiscal year 1985 budget request is $161,771,000 and 2,777 staff years, which represents a net increase of $2,218,000 and a reduction of 143 staff years, compared to the fiscal year 1984 authorized level. This request includes reductions and nonrecurring cost savings of $11,092,000 and 176 staff years, and an increase of $10,310,000 to maintain current levels of operation, including a redirection of $2,100,000 and 33 staff years. Two program increases are also proposed—$1 million for 53 additional permanent change of station moves and $2 million for a digital voice privacy radio communications system. These requirements are discussed in more detail in our fiscal year 1985 budget justification and in my general statement.

During fiscal year 1983 and again in fiscal year 1984, one of our highest priorities has been the hiring of qualified personnel to replace those lost through attrition during the prolonged uncertainty over ATF's future. As of February 18 of this year, our onboard staffing level had reached 2,860, which includes 1,211 special agents and 588 inspectors. While these recent personnel increases are important to our continued efficiency, we have not lost sight of the need to look for ways to improve productivity, thereby minimizing the need for future personnel increases. With this in mind, we made a number of changes in fiscal year 1983 which resulted in more effective utilization of our personnel. Among the most significant of these are the reduction in the number of compliance operations regions from seven to five, the elimination of law enforcement regional offices, the redeployment of significant numbers of special agents from small, noncost-effective posts to large high crime metropolitan areas, and a much more broad based application of the ADP equipment to compliance, law enforcement, and support operations.

LAW ENFORCEMENT

Turning to the law enforcement area, because of the terrible cost in lives and property exacted by these vicious crimes, our highest law enforcement priority is the investigation of bombings, attempted bombings and arson cases. We also vigorously pursue those who endanger the public safety through the commission of crimes involving illegal trafficking in firearms, and those who use firearms in the course of their criminal activity, with a specific emphasis on narcotics violations.

Cigarette smuggling enforcement is concentrated on interstate conspiracies involving substantial revenue frauds where State and local resources are insufficient to combat this problem. In cooperation with the compliance operations staff, investigations are also conducted of organized crime violations of the Federal Alcohol Administration Act.

Law enforcement personnel routinely provide technical investigative assistance, intelligence data, and training to other Federal, State, and local law enforcement agencies. We participate in national strike forces focusing on organized crime. We are also very proud of the role ATF has played in the success of the Vice President's south Florida task force, and we are extremely pleased with the results to date from our participation in the Presidential drug enforcement task forces.

1984 PRESIDENTIAL CAMPAIGN

We are pleased that again in 1984, the U.S. Secret Service is utilizing ATF assistance in meeting the additional protective requirements of a Presidential campaign year. To date, ATF has participated in 266 traveling candidate protection details and over 1,000 local nontraveling protection details. We are honored to be called upon, and believe that the frequent requests for ATF assistance reflect a high regard for the professionalism and expertise of ATF special agents.

1984 SUMMER OLYMPICS

In response to the critical need for efficient security at the 1984 Olympic games, ATF has redirected 83 special agents, inspectors, and support personnel to assist State and local authorities. Our contribution will be focused in three primary areas: Identification and investigation of firearms-related violations and sources of terrorists' weapons; prevention of, response to, and investigations of major arsons and explosives-related incidents; and assistance to foreign competitors and/or security personnel relative to their importation of firearms.

Our security assistance effort for the 1984 Olympics will be completed during the fourth quarter of fiscal year 1984. For fiscal year 1985, the 83 agents, inspectors, and support personnel will be redirected into the existing firearms and explosives programs.

COMPLIANCE OPERATIONS

Our law enforcement philosophy embraces crime prevention as the primary goal of the special agent. It is much more desirable to stop a vicious, mindless crime from happening than it is to apprehend a criminal after he has caused the loss of innocent lives and property. This same basic philosophy is applicable to our compliance oriented programs. It is far more worthwhile to use our scarce resources to prevent excise tax evasion than to discover the evasion after the revenue is lost, possibly forever, to the Treasury. It is also of great importance that organized crime figures be denied entry into regulated industries—and ATF inspectors strive to do just that.

With this in mind, the Office of Compliance Operations is exercising careful selectivity in its use of resources to insure the greatest possible net benefit to the Government. We gear our tax collection activities directly to the degree of potential revenue jeopardy, employing statistical, narrative, and historical data to determine vulnerable areas.

Historically, ATF has encouraged the alcohol and tobacco industries to pay the proper taxes through a strong revenue examination program. We believe that the current rate of tax compliance is directly related to this effort, and that we can only expect future compliance to be as good as the examination, verification, and enforcement process.

Unfortunately, there have been several recent instances of tax evasion and diversion of taxable products from distilled spirits plants. The problems range from large-scale organized fraud, to apparent carelessness or lack of internal controls, to increasingly frequent theft incidents. I have included several examples of such problems in my general statement.

Our concern over a possible trend toward evasion is not limited to the distilled spirits industry. The same root causes are present in other industries, along with other potentially aggravating factors such as the recent doubling of the tax on cigarettes.

To deal with these factors, we plan on developing new approaches to improve resource utilization, as well as immediate implementation of the improved targeting techniques I mentioned earlier.

FIREARMS AND EXPLOSIVES

Our philosophy of preventive enforcement and educational efforts to achieve compliance is also evident in the firearms and explosives compliance programs, where the value of, and enthusiasm for, dealer seminars is well established. We make every effort to insure that Federal firearms and explosives licensees, the vast majority of whom are legitimate businessmen, not only understand the regulations, but also understand the importance of compliance with those regulations to our enforcement efforts.

Thanks to your support, and the support of the administration, I believe that the men and women of ATF have had a very productive year in fulfilling their responsibilities in the public safety, tax administration, and consumer protection areas. We ask your continued support in fiscal year 1985, and in return we promise another good year's work from ATF.

That concludes my opening statement. We will be happy to answer any questions you may have.

TAX COLLECTION

Senator ABDNOR. Thank you, Mr. Higgins.

In Congress, I am sure you are aware there is a great deal of talk about an excise tax increase on distilled spirits and some significant changes in tobacco tax collection. These possible changes were not in the works when you developed the ATF budget request.

If they had been, would you still be asking for a 49-percent decrease in the ATF's overall ability to collect Federal revenues?

Mr. WALKER. Specifically, I gather what you are referring to, if a doubling of the excise tax in alcohol——

Senator ABDNOR. Yes; would it make a difference?

Mr. WALKER. The revenue hopefully would double as a result of that. I do not think anywhere that the resources would have to be necessarily increased, because each taxpayer would simply be paying more.

We are dealing with a finite number of taxpayers. We basically know who they are. Ninety percent of the revenues in the alcohol area come from a relatively small number of large taxpayers, and I do not think that this would cause a problem. However, that does not mean that we would not carefully review the situation in the event that an excise tax was imposed to determine whether or not we need to have additional resources. But, at this point, I do not think it is possible to say that we would definitely need additional resources based upon the existing state of our knowledge.

TAX EVASION

Senator ABDNOR. Well, it has been brought to our attention that there is more of a growing evasion going on out in the field. I do not know if you have found it that way. At least we have had people report to us that they think there is.

Looking back, last year, Mr. Walker, I had Senator Dole and his staff all over me for adding people. They said you cannot do that, and they expect us to make this work.

How can you expect to make this work if you do not give us the manpower to go out and collect it? We had to back off and adjust our budget.

That makes me wonder if there is going to be more of an inclination to evade taxes. One thing we are all trying to get at in the whole tax program is to close loopholes and collect what is due us.

I remember what we went through on that banking thing. We had to put manpower into that too for collecting on dividends and interest. There was a big uproar. But the idea was to try to get people to pay taxes due. That is why we are concerned, because when you are taking a 49-percent decrease, that is a lot of people in that particular area of your operation. You drop it by that much and then say you are going to do a better job than ever and collect more dollars because you are going to have a broader tax base, I think it would be a difficult thing.

Do you think you can do it, Mr. Higgins?

Mr. HIGGINS. We are going to give it a real try.

I might point out that the 49 percent is an overall percentage number. We will not be taking that heavy a percentage out of the revenue protection part of that program, but there will still be a substantial difference, I think about 33 percent, in that area. We will watch it very closely.

We have some studies underway that will give us information on what that compliance rate is, how we can impact it.

We will do the best we can.

Senator ABDNOR. I am sure you will. You do a fine job.

We have the other agencies saying you have to do this and that because it will take more manpower for precisely what we might be doing here. I guess we had better wait and see if the tax goes on, I do not know. But this is quite a drop. While I recognize your computers do a lot of things, I do not know how investigating tax evasion—it will take more than a computer.

I know in IRS we put a lot of ADP equipment over there. It is paying dividends. But we are not knocking off bodies. They are keeping them in other areas of the program.

It is just a great concern of mine to make sure we do not let up any. There is no sense in voting for tax increases and not being able to collect it.

You have done a good job, Mr. Higgins, in assisting the States to combat State cigarette tax evasion. In fact, you may be working yourself out of a program if that is the case.

Is there some area where these agents might be used more effectively?

Mr. HIGGINS. Both in Mr. Walker's statement and my own, I think we are very much aware of the fact that in the law enforcement firearms program, and also to some extent in the arson program, it was a very tough call this year to decide how to get additional resources in the law enforcement firearms area, because of the increased relationship of guns with narcotics and being able to use those statutes very effectively there. Our decision to redirect those resources, you know, was a tough call. We think both areas are extremely important and obviously, to the extent that any funds are available, both are excellent programs. There is, I think, a good return for the money. But this is just a choice between some very tough choices and available amounts of money.

CIGARETTE SMUGGLING

Senator ABDNOR. We find ourselves when we talk about dollars in somewhat of a dilemma. I had it brought to my attention yesterday in testimony from the outside witnesses, I recall very specifically what we wrote into our report last year about cigarette tax collections, and how we are turning it back to the States this year. And now OMB surprises us and comes back and puts the money in the budget. They did not put it in before.

We have a little trouble figuring out quite which way we are going. We thought we were cooperating.

Is there any reason for that? Either one of you two gentlemen, do you know what is behind that, why they did it last year and did not do it this year?

I find it very difficult to tell these States we will not go along with them when OMB says we are, we should do it, put the money in for it.

Mr. WALKER. As you may recall the administration did propose elimination of the cigarette smuggling program in fiscal year 1984. However, Congress felt that the cost to the Federal Government to administer this program was minimal when compared to the total revenue it has saved for the States. To insure this trend continues Congress restored $4.2 million to ATF's 1984 budget. Their budget request for fiscal year 1985 maintains the same program level of effort.

Senator ABDNOR. Oh, so Treasury did ask for it.

I should have asked Mr. Stockman about it. Maybe he had second thoughts. Firearms always come through on second thoughts.

STAFFING REDUCTIONS

Fiscal year 1981, ATF had a personnel ceiling of 3,662. In fiscal year 1985, if the Department of Treasury has its way, the ceiling will be 2,777. This is a staffing decrease of 24 percent.

Now, how are you going to do this? Is it your intention that the ATF people be phased out by attrition?

Mr. WALKER. No; first of all, most of that percentage has been taken already since 1981. Reduction this year is a net of only 143 full-time equivalent positions.

Senator ABDNOR. What?

Mr. WALKER. Our reduction proposed for fiscal year 1985 is 143 positions.

Senator ABDNOR. Let us go back.

Mr. WALKER. Sure. If you want to go back to 1979, I think we were up around 4,000.

Senator ABDNOR. No; I want to go back to 1981. What were you going to say about 1979?

Mr. WALKER. It was hiqher. That was one of the highest years ATF ever had in terms of personnel. It was upwards of 4,000 or more.

The fact of the matter is that we have heeded the wishes of the President and of the people to tighten our belts as far as the Federal budget is concerned, and we have sought to trim the ATF budget to be able to still provide the law enforcement services and fulfill the functions of that bureau as best we can without having excess resources on the job. I think that ATF has done an excellent job with managing the budget reductions that they have had. I think that the quality of the investigations, the number of investigations, particularly the kinds of violators they are going after today, are more worthy of investigation than in the history of the agency. And we are making with ATF a tremendous impact, I think, on violent crime, even with a tightened budget.

Senator ABDNOR. I agree, Mr. Secretary.

I guess my question is is it the intent that ATF be phased out by attrition?

Mr. WALKER. No.

Senator ABDNOR. No? OK.

Mr. WALKER. No.

ARSON PROGRAM

Senator ABDNOR. You mentioned a minute ago, I think Mr. Higgins or you, Mr. Secretary, the arson program—how is that holding up? Is that holding up well? Are we maintaining the numbers in the arson program? Is that going to be reduced?

Mr. WALKER. Yes; I would like to ask Phil McGuire, Associate Director for Law Enforcement, to answer that question.

Mr. MCGUIRE. We think we are getting a tremendous return on our money while in 1985 the request will be for some redirection of people from the arson program to the firearms program, that is, as Mr. Higgins pointed out, based on our identified and proven successes in using our people to impact narcotic violators utilizing the firearms laws.

Several other things we are doing in the arson area to bring the States and local governments up to where our net is, to provide additional training in the initiation of task forces around the country, the training that we have developed working with State and local people at our Federal and local training centers. Our successes are increasing yearly in the arson area.

Senator ABDNOR. How many years has ATF been in there? Have they had an arson program?

Mr. MCGUIRE. Well, we have had a structured arson program for about 5 years. And we were having some significant successes. However, approximately 1 year ago, upon passage of the Antiarson Act, which clarified the Federal Government role in the arson area, our successes have been greater and our efforts more significant.

Senator ABDNOR. I know there are a number of people in Congress who feel very strongly about this program and have brought it to our attention. You are going to drop the numbers of people in this program I think?

Mr. MCGUIRE. We are going to drop them slightly in 1985.

Senator ABDNOR. Have you any idea how much?

Mr. MCGUIRE. Beg your pardon?

Senator ABDNOR. How many are you going to drop?

Mr. MCGUIRE. It would be a total of 33 positions redirected into the firearms area.

Senator ABDNOR. Out of how many?

Mr. MCGUIRE. There will be 207 special agents remaining.

Senator ABDNOR. So you had 240 total?

Mr. MCGUIRE. Yes, sir, that is an approximate amount.

Senator ABDNOR. I know it has paid off, probably insurance premiums and everything else in this country reflect it. I would hate to see us slack off of it. I hope we do not see any rise in that area because of it.

Well, we thank you, gentlemen. I guess we have to keep moving.

There are questions we will be submitting to you in writing, if you do not mind, so we will let it go at that.

We thank you very much for your appearance here today.

Mr. WALKER. Thank you.

[The information follows:]

STATEMENT OF STEPHEN E. HIGGINS

It is a privilege to appear before you in support of the FY 1985 budget request for the Bureau of Alcohol, Tobacco and Firearms.

Accompanying me are my colleagues Mr. William Drake, Associate Director, Compliance Operations; Mr. Phillip McGuire, Associate Director, Law Enforcement; Ms. Barbara Pomeroy, Comptroller; and Mr. Paul Gentille, Financial Manager.

The FY 1985 budget request is $161,771,000 and 2,777 staffyears, which represents a net increase of $2,218,000 and a reduction of 143 staffyears compared to the FY 1984 authorized level. This request consists of reductions and nonrecurring cost savings of $11,092,000 and 176 staffyears, and an increase of $10,310,000 to maintain current levels of operation which includes a redirection of $2,100,000 and 33 staffyears. Two program increases are also proposed, which are $1,000,000 for 53 additional permanent change of station moves and $2,000,000 for a digital voice privacy radio communications system. These requirements are discussed in more detail in our FY 1985 budget justification and later in this statement.

RESOURCE UTILIZATION

During FY 1983 and 1984, needed support personnel have been hired to bring our onboard staffing to 2,860 as of February 18, 1984. The Bureau has been initiating projects to improve productivity and minimize future personnel requirements. A number of organizational changes in FY 1983 allowed both internal and regional realignments. Most significantly, the number of Regulatory and Administrative regions was reduced from seven to five, Headquarters' Criminal and Regulatory Enforcement activities were reorganized along program rather than functional lines, the laboratory system was realigned with the closings of the Philadelphia and Cincinnati labs, and financial management activities were centralized at Headquarters. Since the end of FY 1982, nearly 65 posts of duty and area offices have been closed and 20 have been opened as the streamlining of the Bureau continues.

Other efforts have been under way to implement cost-effective applications of automated equipment. Computer terminals will be installed in regional offices to enable direct input regarding regulated industries and thus reduce hours of staff time spent on manual reports. The Law Enforcement Management Information System (now known as LEMIS) has been overhauled. Automated data retrieval systems have been installed for various administrative tasks. In view of the wide potential for automation throughout the Bureau, efforts have also begun toward the gradual implementation of a Bureau-wide data base management system.

As you are aware, the Bureau has recently completed an executive level reorganization. The reorganization was initiated for two reasons: first, to strengthen policy level attention to operations, and second, to better identify and clarify executive and top management responsibilities. Briefly, the changes include the Office of Regulatory Enforcement being retitled the Office of Compliance Operations, with its Associate Director also having a Deputy Director role, and the Office of Criminal Enforcement being retitled the Office of Law Enforcement, with its Associate Director also acting as a Deputy Director. The position of Assistant Director (Administration) has been eliminated with the creation of the Office of the Comptroller. The Office of the Assistant Director for Planning and Evaluation has been replaced by the Bureau planning board which consists of the executive staff. Finally, the position of Assistant Director (Technical and Scientific Services) has been retitled Director, Laboratory Services. Other management improvements will be addressed in the following discussion of Bureau programs and accomplishments.

LAW ENFORCEMENT

Law Enforcement activities consist of investigating violations of Federal criminal statutes relating to explosives, arson, firearms, alcohol, and cigarette smuggling. Investigations of violent explosive and firearm crimes which endanger the public safety are emphasized. Highest priorities are given to bombings, attempted bombings and arson cases, because of the potential for loss of human life. Firearms investigations are focused on illegal sources of firearms, as well as criminals who misuse firearms to commit crimes. Cigarette smuggling enforcement is concentrated on interstate conspiracies involving substantial revenue frauds where State and local resources are insufficient to combat this problem. In cooperation with the Compliance Operations staff, investigations are also conducted of organized crime violations of the Federal Alcohol Administration (FAA) Act.

Law Enforcement personnel routinely provide technical investigative assistance, intelligence data, and training to other Federal, State, and local law enforcement agencies. The Bureau participates in the national strike force approach on organized crime. Additionally, the Bureau has played a major role in the success of the Vice President's South Florida Task Force, and we are currently participants in the Presidential Drug Enforcement Task Forces.

Law Enforcement Management Initiatives

In support of the Bureau's efforts to strengthen law enforcement capabilities, management initiatives have been directed toward enhancing investigative productivity and quality through a more efficient organizational structure, automation, and improved resource utilization. The following management improvements took place during FY 1983 and to date in FY 1984.

Abolishment of the four Regional Offices and Regional Directors of Investigation became effective January 1, 1984. This management initiative will enhance the flow of communications, ensure nationwide consistency in program and resource application, and bring to Law Enforcement a more effective organizational structure with straight-line authority over all operations.

Recognizing the Nation's changing violent crime trends and shifts in population centers, a staffing model was designed to identify the locations where agent resources can most effectively combat explosives and firearms violence. Recently automated, the staffing model uses population and violent crime rate information to compute the most effective deployment of agents. Our goal is to move toward optimum staffing of our enforcement offices as funding permits.

In FY 1983, an automated management information system was designed to collect more accurate, meaningful data and vastly reduce the amount of time spent by agents on completing routine reports. This initiative will save approximately 11 special agent staffyears that can be applied to other law enforcement efforts. This system is one of the most advanced data tracking systems in law enforcement, and will provide information needed by management to improve resource utilization and maximize efficiency.

Explosives Program

The misuse of explosives has become an issue which is graphically depicted in everyday news events, and tragically has come to represent a catalyst for establishing a public forum for subversive groups. The resources for constructing an explosive device are readily available to anyone, as well as the illustrative instructions for the manufacture of such a device from any number of publications, an unfortunate fact which contributes to the large number of explosives incidents.

Correspondingly, ATF has established the detection, identification, and investigation of explosives incidents as our highest priority. Our basic approach encompasses both reactive and preventive measures, including expeditious responses to bombings or reported matters involving explosives, and focusing on the apprehension of those responsible for the incident.

Our response to thefts of explosives and the subsequent recoveries of the stolen explosives often abort the potential for subsequent bombings. The utilization of computerized intelligence information and data to identify trends/patterns is an invaluable tool to law enforcement in the war on crime. Investigations of unsafe and inadequate storage of explosives further contribute to the protection of persons and property, and reduce the threat of explosives incidents.

As part of ATF's commitment of assistance to State and local law enforcement, an Advanced Explosives Investigative Techniques Course was initiated in 1982. To date, 226 State and local law enforcement officers have been trained at the Federal Law Enforcement Training Center in Glynco, Georgia. The schools, which are the state-of-the-art in post-blast bomb scene investigation, have been so highly acclaimed that they have been extended into the 1985 training schedule. Two additional schools are scheduled for March and April of 1984.

During the first 9 months of FY 1983, there were 511 bombings or attempted bombing incidents reported to ATF. There were 28 deaths, 87 injuries, and $4.5 million in property damages associated with these crimes. There were also 203 incidents of reported thefts of explosives. These thefts accounted for over 19 tons of explosives missing and entering the illegal market. These figures may increase moderately as additional reports are forthcoming from other law enforcement agencies reflecting incidents not reported previously to ATF.

The Bureau's accomplishments in FY 1983 include initiating 1,650 explosives investigations, resulting in 390 defendants being recommended for prosecution. The following cases are examples of significant results achieved in the Bureau's explosives program:

- Benton, Tennessee: On May 27, 1983, three explosions destroyed an illegal M-80 explosives factory at Benton, Tennessee. Eleven people, all involved with the fireworks factory, were killed and one person was injured. The Midwest National Response Team responded to the scene, where a metal building, a nearby residence and seven vehicles were totally destroyed by the blasts.

  The Southeast National Response Team was already activated for the explosion of another illegal M-80 factory at Orangeburg, South Carolina, which caused two deaths and four injuries.

  On May 29, 1983, 2 days following the Benton explosion, ATF and local officers recovered equipment from still another illegal M-80 factory which had been dumped near the Benton, Tennessee, county line. The investigation disclosed a direct link between all the incidents. The owner of a bait farm at the site of the Benton explosion was subsequently arrested and charged with 11 counts of manslaughter, and the manufacture and possession of explosives. An Ocole, Tennessee, man (convicted in 1981 by ATF) was also arrested and charged with explosives violations stemming from a seizure of 60 cases of M-80's and M-100's in Georgia. This was directly related to the South Carolina explosion and the Benton bait farm owner. Links have also been established in this case to an Ohio man, reputably the kingpin of the illegal M-80 business.

- St. Louis, Missouri: On April 14, 1983, a 2 1/2-year investigation of two bombing homicides, a shooting murder, and an attempted homicide culminated in the indictments and arrests of eight organized crime figures in St. Louis, Missouri. ATF played a major role in the joint multi-agency investigation, which resulted in those arrested being charged with violations of the Racketeer Influenced and Corrupt Organizations (RICO) and conspiracy statutes, possession and manufacture of a destructive device, and obstruction of justice. A State grand jury returned capital murder indictments against five of the defendants.

- Eastern Kentucky: On June 6, 1983, a Federal grand jury in Kentucky indicted 20 individuals on various counts of conspiracy, and violations of the Hobbs Act and the firearms/explosives laws. Four additional persons were later charged for violations of the Hobbs Act and conspiracy. The indictments stem from an extensive ATF undercover investigation into a series of bombings, shootings and arsons directed at Ray-Mac Mining, Inc., in eastern Kentucky. This campaign of violence was an attempt by an owner of a competitor mine under union contract to salvage a $26 million contract with a gas and electric company.

Arson Program

Prior to the beginning of FY 1983, ATF's involvement in the investigation of arson incidents was dependent upon the fact that explosives materials as defined in 18 U.S.C. § 844 were used to initiate the fire and subsequent property destruction. Due to a reluctance by some courts to uphold ATF's jurisdiction in arson cases using the aforementioned explosives definition, it was necessary to amend the statute to specifically cover fire as well as explosives. On October 12, 1982, the Anti-Arson Act of 1982 (P.L. 97-298) was enacted, thus closing a loophole that had allowed certain arsonists to escape prosecution.

While arson is basically a State and local enforcement responsibility, the national magnitude of the problem has eclipsed the capabilities of any one agency to effectively respond to the full range of arson crimes occurring within its jurisdictional area. ATF, in promoting the Federal role in this critical program, has spearheaded the drive to coordinate enforcement efforts among Federal, State, and local sectors. However, the overall effort by ATF is selective in that we actively investigate only a very small percentage of the total arsons committed throughout the country. We are confident that the direction of our investigative activity, along with our assistance to State and local authorities, is compatible with the overall Federal role required to combat the crime of arson.

During fiscal year 1983, ATF initiated 625 arson investigations. Those arson incidents occurring during FY 1983 resulted in 39 deaths, 176 injuries and estimated property damage in excess of $196 million. One hundred ten defendants were recommended for prosecution in Federal or State courts.

In addition to the apprehension and prosecution of violators, ATF utilizes a procedure to capture the "insurance dollars saved" through ATF's arson investigative efforts. During FY 1983, $30 million was "saved" in the sense that in the absence of effective law enforcement efforts, the insurance industry could potentially have been caused to pay out $30 million more in arson-related claims, thus creating a greater burden upon the premium-paying general public and the Nation's economy as a whole. It should also be noted that many of these respective dollar amounts will increase as the ongoing investigations are completed.

In fiscal year 1983, ATF continued its assistance to State and local authorities through the services of four National Response Teams, located in the Midwest, Northeast, Southeast, and Western regions of the United States. These teams were activated in response to 30 incidents, involving 23 deaths, 63 injuries and property damage in excess of $69.9 million.

The arson task force concept continued to be one of the more successful strategies during FY 1983 in combatting this most difficult crime. In eight cities, Seattle, San Francisco, Los Angeles, Houston, Chicago, Boston, New York, and Philadelphia, the concept is fully operational with the pooling of talent and resources between Federal, State and local agencies. Additionally, the first of four new task force groups to be initiated in FY 1984 was begun in Atlanta, Georgia, on November 1, 1983. Detroit, Newark, and a city to be selected at a later date will be added by the end of the fiscal year.

During FY 1985 a reduction of 45 staffyears in arson enforcement is planned. Most of these positions will be redirected to our firearms program in support of the Administration's effort to reduce narcotics-related criminal activity. We believe that the training being provided to State and local enforcement agencies will allow this reduction with minimal impact. The Bureau is highly regarded for its arson investigation course that allows State and local agencies to enhance their capabilities in this area.

The following cases are examples of significant results achieved in the Bureau's arson enforcement program:

- New York, New York: In July 1983, a Federal grand jury in the Eastern District of New York returned six indictments charging eight New York lawyers, real estate brokers and landlords with violations of Federal conspiracy, RICO and mail fraud laws. The indictments stemmed from an extensive ATF investigation into an arson-for-profit ring which operated in the New York City area from 1976 to December 1980, which uncovered that the suspects purchased, through various partnerships, 37 partially-occupied residential properties in Brooklyn, Manhattan and the Bronx. They then obtained a total of $1.8 million in fire insurance policies from various companies and collected $616,000 in fire loss claims, after setting 43 fires in buildings throughout the 3 boroughs. Forty-four firefighters were injured in the blazes.

- Lidgerwood, North Dakota: On May 5, 1983, arson caused $200,000 in damages to the Green Acres Hotel, an apartment building in Lidgerwood, North Dakota. One of the occupants died in the fire. A joint investigation was conducted by ATF, the Richland County Sheriff's Office, and the North Dakota Bureau of Criminal Investigation. One suspect was charged with destroying real property by fire and interstate travel to commit arson. A second suspect was charged with destroying real property by fire, aiding and abetting, interstate travel to commit arson, and using a telecommunications device to promote unlawful activities. Additional indictments are expected. The fire was allegedly started by the suspects at the behest of an individual who was operating in concert with the hotel owner.

- Murphysboro, Illinois: On January 15, 1983, a fire destroyed a city block in Murphysboro, resulting in an estimated $1 million in damages. An individual perished in the fire. One fireman was killed and five firemen were injured while battling the blaze. ATF joined the Murphysboro Police Department, the Illinois Division of Criminal Investigation and the Illinois Fire Marshal in this investigation, which established that an arson was committed, motivated by insurance fraud. On October 13, 1983, two suspects of Murphysboro were arrested on a capital murder charge. Adjudication is presently pending in Jackson County Circuit Court.

Firearms Enforcement Program

The cornerstone of ATF's firearms enforcement program is our Crime Impact Program (CIP). The first phase of the program is a realistic assessment of local, State, and Federal crime problems and their interrelationships through numerous contacts and interviews with other law enforcement and judicial officials at all levels of government. The second phase focuses on those crimes, criminals, or criminal organizations which pose the greatest threat to American society based on a consensus opinion of the criminal justice community.

Our firearms program can be categorized into five major areas. The first is classified as the Dangerous and Special Offenders/Organizations, focusing on those persons or groups identified as repeatedly active and violent criminals. Greater emphasis has been placed on organized crime figures, members of violent extremist groups, outlaw motorcycle gang members, and major narcotics dealers. The following are but a few of our accomplishments in this area:

- ATF special agents developed information that two adults and a 3-year-old child had been murdered by mistake in New Jersey based on an organized crime murder contract. The intended victim lived next door to the murdered family, and he was scheduled to testify against another organized crime associate. The investigation resulted in 54 indictments against 6 individuals, including Federal firearms violations, murder, and distribution of narcotics.
- ATF special agents in Kansas City arrested a major cocaine distributor in possession of machine guns, other firearms, and 12 kilograms of cocaine. The principal was sentenced to 25 years and fined $50,000 for the firearms and narcotics violations.
- Since November 1982, our Miami Task Force operation has conducted 681 investigations, arrested 305 individuals, indicted 195 individuals on felony violations, convicted 115 individuals, charged 289 defendants, and taken 1,219 firearms into custody, 496 of which were machine guns, silencers, or sawed-off weapons.

The second major category concerns criminal trafficking of all types of firearms. This area can be summarized as the identification, investigation and apprehension of individuals or groups who are substantial sources of firearms to the criminal element, and who demonstrate a flagrant disregard of the law.

Included are those who illegally deal in stolen firearms and are involved with burglary and fencing operations and those who illegally traffic, manufacture, or convert machine guns and silencers.

The third area involves the illegal movement of firearms in international traffic, which is of virtual worldwide concern. Since ATF has the primary responsibility in this country for the enforcement of Federal firearms laws, the Bureau must maintain an aggressive commitment toward neutralizing the illicit movement of firearms into and out of the United States. Examples of our efforts in these areas are:

- In July 1983, in New York, ATF culminated an extensive investigation of several international firearms traffickers with the arrest of 11 defendants and the seizure of 100 machine guns with silencers attached. Prior to the arrest and seizures, undercover ATF agents posing as buyers for IRA terrorists purchased 14 machine guns with silencers. The defendants were arrested when they delivered an additional 100 machine guns that they believed were destined for Iranian terrorists.
- In December 1983, a four-time convicted felon was arrested by ATF agents for illegally purchasing several hundred firearms from numerous locations throughout the United States and diverting them to the black market. In addition to the multiple firearms violations, investigation uncovered a scheme that the principal had defrauded Pennsylvania, Massachusetts, Florida, and Maine residents of approximately $1 million.

The fourth area, Technical Assistance, involves testing and evaluating firearms, ammunition and implements of war for proper classification under Federal law, and advising State, local and other Federal agencies on the technical aspects of firearms. We also trace firearms to assist Federal, State, and local law enforcement authorities. For example, in FY 1983, ATF received more than 36,000 requests for firearms traces from various law enforcement agencies. Ninety-two percent or 33,000 were successfully completed and the information transmitted to the requestor. Two notable traces are as follows:

- A firearms trace initiated by the Falls Church, Virginia Police Department of a weapon left at the scene of a rape proved successful. After the Falls Church Police were informed of the purchase of the weapon they interviewed this individual who confessed to a series of rapes.
- An identified major drug smuggler and target of the Presidential Drug Enforcement Task Force was identified and arrested as a result of trace results on firearms seized in Colombia, South America.

The last area involves investigating relief from disability applications. During FY 1983, ATF completed 1,488 of these investigations, restoring the rights to 830 qualified applicants, and denying the remaining 658 applications.

During FY 1983, 8,215 firearms investigations were initiated, and 9,364 were completed. Most notably, approximately 60 percent of our firearms defendants have previous felony convictions, 77 percent have prior criminal records, and 32 percent were armed at the time of their arrest. Distressingly, we must also report the murder of two of our special agents in our pursuit of violent criminals during the past fiscal year. The danger that our agents face in their day-to-day criminal investigative activities can not be emphasized enough.

Alcohol Program

The FAA Act and the Internal Revenue Code (IRC) are the primary statutes enforced by ATF relating to the production and distribution of alcohol. These statutes provide administrative remedies such as suspension, revocation, and offers-in-compromise, as tools for ATF's regulation of the alcohol industry. When there is evidence of organized crime involvement, significant tax fraud, or public corruption, the Office of Law Enforcement becomes involved in the investigation.

The objectives of the legal alcohol industry program are to ensure the highest degree of compliance possible and deter the infiltration of criminal elements into the industry. To ensure fulfillment of these objectives, the Bureau has developed the following strategies:

- Target industry members for investigation where serious noncompliance with Federal laws and regulations is strongly alleged.
- Conduct FAA Act investigations, based upon significant allegations or intelligence, to ensure the integrity of State officials in control States engaged in the distribution of alcoholic beverages.
- Conduct legal alcohol enforcement training schools concentrating on violations of ancillary felony statutes, e.g., RICO, Hobbs Act and mail fraud.

The following are examples of the types of alcohol investigations that have recently been conducted by ATF:

- ATF agents in Kentucky conducted an investigation into the illegal removal of 7,216 proof gallons of distilled spirits from a distillery. The distillery paid taxes in the amount of $127,531, plus $10,135 in interest.
- ATF agents in New York broke up a wine fraud counterfeiting "scam," that resulted in the arrest of four individuals who had placed counterfeit labels of Chateau Mouton Rothschild on less expensive wine shipped from California.

The alcohol program also includes a minimal amount of resources to investigate illegal "moonshining" activity. This illicit activity has been significantly reduced by the past efforts of the Bureau. However, we periodically detect violations committed by holders of Federal permits to manufacture gasohol. In these instances, alcohol is being sold as a beverage rather than being mixed with gasoline to produce gasohol. In addition to these investigations, our efforts will be directed only toward illegal alcohol production and distribution violations that are beyond the resources and jurisdiction of State and local enforcement agencies.

Tobacco Program

As a result of large revenue losses incurred by States with high cigarette tax rates, Congress passed Public Law 95-575 on October 15, 1978, explicitly stating its intent that primary responsibility for cigarette tax enforcement lies at the State level with the Federal effort to be concentrated in those areas beyond the jurisdictional capabilities of the States. Emphasizing Federal/State cooperation, the objectives of our enforcement program are to assist the States in their efforts to collect all revenue due, as set forth by statute, and to impart to the States the knowledge, investigative expertise and overall understanding of the cigarette tax collection problem developed by ATF. The following are examples of the types of Contraband Cigarette investigations that ATF has recently been involved in:

- ATF agents recovered 1,023 cases of cigarettes in North Carolina, that had been hijacked from an interstate carrier. Cigarettes were destined for Oklahoma.

- ATF agents in South Carolina seized 100 cases of contraband cigarettes that were part of a shipment of cigarettes that was previously hijacked in Virginia.
- ATF agents in New York broke up a cigarette counterfeiting operation that had successfully duplicated the combined city/State tax decal. This investigation resulted in saving the State of New York $4-$5 million.

The Bureau's funding level for FY 1985 will be the same as Congress authorized in FY 1984.

PRESIDENTIAL DRUG ENFORCEMENT TASK FORCES

On October 14, 1982, President Reagan announced that 12 regional task forces would be created to implement a coordinated Federal effort against drug trafficking and organized crime. The Bureau's task force efforts were fully operational for the last quarter of FY 1983. During that 3-month period, 77 investigations were initiated and 31 were completed. By the end of the quarter, ATF had effected the arrest of eight of the high level traffickers who were among the suspects in those cases.

ATF's efforts in the task forces during FY 1984 and FY 1985 will continue to be directed against violations of the Federal firearms and explosives laws committed by organized criminal groups whose principal income is derived from trafficking in illegal narotics.

The following cases are examples of significant results achieved by the Bureau's task force participation:

- Chicago, Illinois: In November 1983, three individuals were convicted of narcotics related charges as the result of an ATF investigation of the El Rukns (formerly the Blackstone Rangers), Chicago's most dominant street gang. Two face sentences of imprisonment up to 35 years and one was sentenced to 13 years. All are self-styled "Generals" in the El Rukns, and the one imprisoned is the acknowledged leader of the gang.
- Hartford, Connecticut: In October 1983, two major cocaine traffickers were arrested on a combined 9-count indictment charging Federal firearms violations. These arrests were part of a task force operation that resulted in the indictment of 15 suspects for narcotics, firearms, and tax violations.
- Tulsa, Oklahoma: Three suspects were arrested as the result of a reverse sting operation in which they attempted to pay an ATF undercover agent $100,000 for 4 pounds of cocaine. Subsequent investigation led to the recovery of 21 firearms from the trio.
- St. Louis, Missouri: ATF agents seized 63 firearms, including three machine guns from a DEA Class I violator and task force target.

Assistance to the United States Secret Service

The 1984 Presidential campaign year has arrived, and with it comes a major responsibility and commitment by ATF. To date ATF has participated in 266 traveling candidate protection details and over 1,000 local nontraveling protection details. ATF has 500 trained and experienced agents prepared to augment Secret Service's cadre of agents.

The Secret Service is authorized to request ATF personnel, equipment, and vehicles needed to effectively complete their security and protection missions. Presidential protection details are considered top priority assignments. From past experience, we project our protection services will equate to at least 100 staffyears during this campaign.

The 1984 Summer Olympic Games

As a result of a terrorist takeover of the 1972 Olympic Games in Munich, West Germany, security procedures have become an ever-increasing problem for law enforcement authorities at these events.

Security for the Games is the primary responsibility of State and local authorities. The Federal role will be one of prevention and support to State and local efforts. To that end, in FY 1984, ATF has redirected 83 agents and support personnel from existing firearms and explosives programs for a total of 70 days. We have received $2,126,000 to fund this endeavor. ATF's strategy for security at the 1984 Summer Olympic Games consists of three elements:

- Investigation of firearms-related violations and sources of terrorists' weapons.
- Response to, and investigations of major arsons and explosives-related incidents.
- Assistance to foreign competitors and/or security personnel relative to their importation of firearms.

In the event of a terrorist attack, an ATF firearms investigative unit will respond by tracing any firearms recovered, and by assisting in the follow-up investigation and prosecution.

ATF representatives are currently participating as active members of four Olympic Law Enforcement Security Planning Subcommittees: the Bomb and Bomb Threats (EOD) Subcommittee, the International Entry Subcommittee, the Dignitary Protection Subcommittee, the Intelligence Subcommittee, and ATF chairs the firearms study group for the Security Planning Committee.

The Bureau's commitment to the 1984 Olympics will be completed during the fourth quarter of FY 1984. For FY 1985, the 83 agents and support personnel, will be redirected back into the existing firearms and explosives programs.

Permanent Change of Station Funds

The Crime Impact Program identifies areas where ATF can affect the violent crime in the U.S. This program relies on the ability to shift resources in response to changes in violent crime rates and population. The staffing model which I mentioned earlier is intended to calculate optimum staffing levels in all geographic areas, based on changes in violent crime rates and population. The requested additional 53 permanent change of station moves and corresponding $1,000,000 will allow ATF to assign experienced and trained agents to areas where their impact on crime will be the greatest.

Digital Voice Privacy Radio Funds

Radio communications are essential for the effective fulfillment of our law enforcement mission. Technology has advanced over the years to the point that it is relatively easy for an adversary to obtain communications equipment that can compromise enforcement efforts and jeopardize the safety of our special agents.

In order to provide a safe level of security to our radio communications, the Bureau is proposing to purchase digital voice privacy (DVP/DES) communications equipment. This equipment represents the most recent technology in the communications field and would provide the required security for our undercover and surveillance operations.

The total cost of the digital voice privacy communications system is estimated at $6 million, over a 3-year period. The first phase of our plan is scheduled for fiscal year 1985, and we are requesting $2 million to equip 12 major cities designated as high crime areas. The remaining 18 cities will be prioritized and addressed during FY 1986 and FY 1987.

The selection of these cities coincides with areas selected as targets for drug task force operations and are prioritized by resources and the need for voice secure communications in those areas.

COMPLIANCE OPERATIONS

ATF's regulatory philosophy is to regulate only where needed, and then only to the extent necessary to accomplish the intent of the statutes. We recognize that compliance with the intent of the law is equally as important as compliance with the letter of the law. Failures to comply are viewed in light of the regulatory requirements, the act of noncompliance, and the effect of noncompliance.

One of our objectives is greater selectivity in the utilization of resources so that the Government will derive the greatest possible net benefit from resources committed to our programs. We try to gear the regulations and our activities directly to the degree of risk or jeopardy, matching requirements and regulatory oversight to the size of the operation and the scope of the regulated activity.

We have established criteria for selection of targets for compliance efforts, and use statistical and narrative data to analyze potential workload. Such studies allow us to concentrate resources in sectors which most require attention.

One way in which we seek to improve compliance levels is the adoption of more effective methods of processing our workload. Several initiatives have been established to improve the productivity of our offices, both in the field and for managers and supervisors as well. We also reach numerous industry members with great success by conducting Government/industry seminars, meeting in public forums with industry members to work with them to achieve compliance. These meetings help foster greater understanding of the Federal statutory and regulatory requirements. We invite State representatives to these seminars so that there may be a clear understanding of Federal and State responsibilities.

Our major programs illustrate our efforts to reduce regulatory intrusion and to optimize benefits.

Compliance Operations Management Improvements

Regional office and headquarters reorganizations were finalized in FY 1983. The consolidation of seven regional offices to five eliminated the positions of two regional regulatory administrators and their staffs. Technical services functions were retained in seven locations in recognition of the heavy concentration of industry activity, and consequently of ATF workload, in the states served by the consolidated regions.

In the headquarters reorganization, National Firearms Act and Firearms and Explosives Import operations, previously part of the separate Office of Technical and Scientific Services, were combined with other regulatory firearms and explosives operations. Other functions were realigned to provide enhanced efficiency and communication, both intra-agency and with the regulated industries and public.

In FY 1983, we completed a reevaluation of the staffing pattern of our field operations in light of the present workload. This led to a reallocation of authorized inspector staffing among the regions. Cities identified by the Justice Department and other high crime areas received additional staffing allocations for firearms and explosives work. As one consequence, establishment of a Miami area office was recently authorized. This is in keeping with the general buildup of Federal enforcement presence in that city to follow up on the drug task force effort.

Finally, we continue to upgrade workforce skills. In FY 1983, we trained 160 inspectors in audit techniques and held assembled basic training for 29 new employees. By the end of FY 1984 all inspectors and area supervisors will have received audit training.

Alcohol and Tobacco Programs

Revenue Protection

Over the past few years, in implementing the changes brought about by the Distilled Spirits Tax Revision Act of 1979, the Bureau faced the challenge of assuring continued collection of almost $4 billion in excise taxes paid annually by the distilled spirits industry, and the protection of an additional $8 billion in potential excise taxes on spirits in storage, under a radically different regulatory framework. With careful advance planning, the Bureau successfully managed the transition with a minimum of disruption to industry.

Effective January 1, 1983, the excise tax on cigarettes was increased to twice the former rate. In addition, a one-time tobacco floor stocks tax resulted in approximately 9,500 floor stocks tax returns totaling $180,000,000. Field examinations of the taxpayers, primarily wholesale distributors not regulated by ATF except for this one-time tax, disclosed many serious compliance problems. To date, nearly $400,000 in additional taxes was collected from taxpayers examined.

Historically, ATF has encouraged the alcohol and tobacco industries to pay the proper taxes through a strong revenue examination program. We believe that the current rate of tax compliance is directly related to this effort and that we can only expect future compliance to be as good as the examination, verification and enforcement process.

Therefore, we have had some concern when we noticed that our indicators show some erosion in voluntary tax compliance. Of particular concern is the distilled spirits industry.

The problems range from large-scale organized fraud, to apparent carelessness or lack of internal controls, to increasingly frequent theft incidents. Examples include:

- ATF seized $1.2 million in distilled spirits that were being offered for sale on the U.S. market after having been fraudulently shown as exported;
- A distilled spirits plant (DSP) proprietor was linked to a scheme in which tax returns were falsified to show $300,000 less than actually due;
- Another DSP was suspended for 14 days and submitted a $75,000 offer-in-compromise to settle numerous violations including unlawful removal of spirits prior to tax determination;
- Increasing instances of late filing of excise tax returns and
- Increasingly frequent thefts of both bulk and bottled goods, some of which later turn up in commercial distribution channels.

The fact that tobacco floor stocks tax examinations of taxpayers not normally subject to ATF coverage disclosed many serious fraud-type violations also supports the need to maintain a presence to ensure compliance.

Our concern is not limited to the specific taxes or types of industry members included in these examples. The same root causes are present in other industries along with other potentially aggravating factors such as the recent doubling of the tax on cigarettes.

As a result of this possible erosion in tax compliance, we plan on developing new approaches as well as immediate implementation in areas of greatest need of improved targeting and techniques, for example:

- Early identification of trends adversely affecting collections;
- Profiling of likely problem plants;
- Inspections at other levels of the distribution chain to uncover large-scale diversions which must use these channels to realize a profit; and
- Continue to upgrade technical expertise of field staff.

Alcohol Qualification and Market and Product Integrity

In all of our market and product integrity programs, the Bureau has one overriding goal: to provide the maximum service to our constituents (the public and the industry members), with a minimum of disruption to the normal operation of the market.

Our strategy is to closely coordinate and monitor existing regulatory programs which implement the FAA Act by assuring product integrity and an orderly marketplace. Our goal is to make market and product integrity examinations more systematic so that problems are detected at an early stage, or prevented altogether, thereby limiting any potentially adverse impact on the industry members involved or the general public.

Legal Alcohol Industry Strategy

One major part of our market integrity strategy is ownership and control investigations. Under the FAA Act, the Bureau is responsible for keeping prohibited and/or unqualified persons out of the legal alcohol industry. Our qualification activity is the first line of defense against such infiltration. The Law Enforcement Crime Impact Program, and various crime commission studies have revealed evidence of organized crime involvement at the retail level.

It is our responsibility to determine just how involved criminal elements may be at the producer and supplier levels, where special business interests (including organized crime) may have infiltrated through hidden ownership and control after original permit qualification. As a result, we are placing more emphasis on disclosing instances where ownership and control of these enterprises is concealed. Through training and dissemination of information, we are making our personnel more alert to the potential of hidden interests. We are also highlighting the importance of what may seem to be routine qualification or change of control investigations to attune these personnel to possibilities of concealed interests. Hidden ownership, while not a separate program of itself, is an integral part of the overall FAA Act compliance program.

We also have continued our traditional trade practice program with substantial results in this past year. One completed trade practice investigation concluded with the permittee pleading guilty in District Court to 25 counts of unfair competitive practices, paying a $25,000 fine, and submitting a total of

$550,000 in offers-in-compromise to ATF. In a product compliance case with revenue implications, ATF accepted a total of $247,500 from eight U.S. importers of sake which had been fortified with distilled spirits but taxpaid as a malt beverage. Ongoing investigations include one involving a nationwide pattern of anticompetitive practices by a major industry member. A U.S. attorney has already agreed to prosecute some violations and is investigating others. Referrals to the Securities Exchange Commission also have been made.

In enforcing the FAA Act, ATF has attempted to aggressively pursue cases where major, serious violations are suspected, while taking a more lenient approach in cases involving only technical, non-serious violations. We conduct investigations of unfair trade practice activities in the alcoholic beverage marketplace as a result of information we discover, as well as on the basis of complaints made by industry members. We have attempted to foster a spirit of cooperation among ATF, the alcoholic beverage industry, and State officials to ensure an orderly marketplace in which all competitors play by the same rules.

International Actions

The Bureau has been quite successful in efforts to correct problems with respect to imported alcoholic beverages and to promote stability in that market. As the Committee knows, our regulatory compliance activities are directed toward domestic and imported products alike. It is our policy to ensure that all alcoholic beverages are accurately labeled and enjoy an equal opportunity for open competition in the U.S. market. By the same token, although we are aware that it is not our mission to promote foreign trade, we do believe we have the responsibility to try to harmonize requirements. In providing such assistance, we have worked to eliminate foreign regulatory obstacles which restrict U.S. access to export markets.

For example, the Bureau has fulfilled an essential role in the technical consultations which have been taking place with the European Community (EC) over the past several years. U.S. - EC accords were formalized in July 1983, outlining areas of tentative commitment concerning enological practices, EC certification requirements for U.S. and EC wines, labeling standards and procedures, and wine fraud investigations. Implementation of the commitments made therein will require regulatory or administrative action by the EC and ATF.

Other more directly responsible Federal agencies have come to realize that ATF's regulatory authority and technical competency with respect to U.S. alcoholic beverage products and imports naturally lends itself to involvement in international activities. We will continue to meet our responsibilities in these areas and to assist other U.S. Government agencies which may benefit from our expertise and experience in regulating the production and marketing of alcoholic beverage products.

Firearms Program

I would like to report to you on our regulatory firearms program, which includes licensing and compliance elements. Licenses to manufacture, import, and sell firearms are required by the Gun Control Act of 1968 in order to provide for an orderly flow of legal firearms from the manufacturer to the retail sales outlet and to prevent the criminal misuse of firearms. In part, this orderly flow depends upon preventing certain "prohibited persons" from obtaining a firearms license. Prohibited persons include convicted felons, illegal aliens, and drug addicts, not the law-abiding citizen.

During this past fiscal year, we processed 49,495 new applications and 183,373 renewal applications for licenses. Most processing of licenses takes place in seven firearms and explosives licensing sections. Applications examiners review all applications for completeness. A field investigation may be requested if the FBI or TECS name check or other information indicates an irregularity. We also select applicants for routine personal contacts based on predetermined criteria, concentrating on high-crime areas. This presents an opportunity to explain the requirements of the Gun Control Act and to respond to any questions or problems the applicant may have.

National Firearms Act (NFA) weapons and firearms import operations are centralized in Bureau headquarters. These branches administer special tax and registration provisions applicable to NFA weapons (e.g. machine guns) and the importation regulations issued under the Gun Control Act of 1968 and other statutes. The workload of these branches has continued to grow over the past several years. Initiatives to apply automation to many of the functions of these operations are under way.

The purpose of the Bureau's firearms compliance program is to maintain the integrity of the firearms recordkeeping system, to enhance crime gun tracing capabilities, and to reduce the potential for criminal misuse of a firearm. This is accomplished through selective field inspections, which not only ensure compliance with the law, but also provide information and assistance to licensees. When nonwillful discrepancies are found, we try to focus corrective action on assistance to the dealer, not admonitions for each small error. About 20 percent of the firearms dealer inspections yield recordkeeping discrepancies.

Accurate and complete licensee records increase the likelihood that, when we receive a request from a Federal, State, or local law enforcement agency to trace a firearm that has been used in a crime, we will be able to complete the trace.

We are firmly committed to assigning highest priority to the use of our resources to combat the growth of violent crime in the United States. Both application and compliance activities give priority to applicants or licensees deemed most likely to be targets for diversion of firearms from legitimate trade to criminal misuse or whose past actions are characterized by a low level of compliance with law and regulations. Resources are concentrated in high-crime Standard Metropolitan Statistical Areas and those identified by the Justice Department as needing increased law enforcement attention (e.g., Miami and other task force cities). Licensees such as pawnbrokers, manufacturers, and NFA dealers are also given extra emphasis. One indication of the payoff from this approach is in the results produced by inspectors supporting the Miami task force. Through inspections and other contacts with firearms dealers, inspectors provided additional information on 198 ATF criminal suspects and identified 277 illegal sales, 452 potential traffickers and 1,424 questionable purchasers for further investigation.

We recognize our responsibilities to legitimate business-persons and gun-owning citizens who sincerely want to abide by the law, therefore, we have chosen to put a significant portion of our regulatory firearms resources into an educational campaign built around locally-held seminars. In FY 1983, 6,554 persons attended 87 firearms seminars.

These seminars are held in major metropolitan areas with heavy concentrations of firearms licensees. General invitations are sent to all dealers and interested parties in those areas, including local Congressional offices and State and local authorities. All segments of the Bureau participate in the seminars, with Compliance Operations, Law Enforcement, and Chief Counsel on hand to answer participants' questions. The seminars have been enormously popular with the local dealers and local law enforcement authorities who have attended.

Explosives Program

Compliance Operations with respect to explosives ensure that those involved in the explosives industry meet the requirements of law and regulations, including licensing and permit provisions. We conduct inspections which ensure the public safety by verifying proper storage of explosives. Improper storage of explosives can threaten public safety in two ways: accidental detonation, or theft for misuse (e.g., in a terrorist situation). A combination of inspections and educational initiatives are employed to ensure that explosives are stored safely and securely, free from risk of theft.

All regions held their first explosives seminars in FY 1983 in a trial program to apply the seminar approach in this industry. In FY 1984, all regions have planned multiple explosives seminars which will include local representatives from Federal and State regulatory agencies. Through these seminars and attendance at meetings of the national industry associations, we will be working to provide the least burdensome Federal regulation of explosives that can be achieved consistent with existing or enhanced levels of public safety.

The ATF-initiated Interagency Committee on Explosives resumed its work in FY 1983. The committee, which is made up of representatives from 20 Federal agencies, will continue to direct its efforts toward the elimination of the regulatory confusion resulting from the profusion of independently developed standards, definitions, and regulations promulgated by the various Federal agencies charged with the regulation of explosives.

Deregulation Efforts

ATF is deeply committed to "deregulation" wherever possible. Historically, the industries with which we are concerned have been heavily regulated. Therefore, we continue to view deregulation as an important priority, notwithstanding the substantial progress we have made over the past several years.

The deregulation process for industries regulated by ATF continued to move forward in FY 1983. Significant initiatives include:

> Wine: An eight-phase project will reduce sections of applicable regulations from 1,052 to 500. A Treasury Decision eliminating one subpart of regulations was published in October 1983.
>
> Beer: ATF published a Notice of Proposed Rulemaking, proposing to revise all brewery regulations. When finalized, the new regulations will substantially reduce forms, record-keeping, and requirements for filing operational notices with the Government.
>
> Firearms and Explosives: Federal licenses for firearms and explosives industry members have been converted to 3-year terms, resulting in savings to both industry and the Government. Phasing in of 3-year firearms licensing will be accomplished over 3 years due to the number of licensees involved.

Deregulatory initiatives have also been completed or are in progress for other industry groups, for example: simplified permit, bonding and recordkeeping requirements for industrial alcohol users and dealers; reduced recordkeeping for manufacturers of nonbeverage products and wholesale dealers in alcoholic beverages; and, limiting records retention and enabling gun show sales by firearms licensees.

While regulation of sensitive industries for which the Bureau has responsibility can not be eliminated entirely, we believe that regulations and paperwork can be reduced while maintaining an efficient and effective administration of Federal statutes.

EQUAL OPPORTUNITY PROGRAM

Finally, but by no means least important, I would like to give you a report on the equal opportunity activities of the Bureau.

Our primary effort has been to make equal opportunity an operating program with responsibility for accomplishment shared equally by each major functional area. Executives and managers are fully aware of their responsibilities and all are aware that their performance will be evaluated on how well they meet these responsibilities.

Although hiring has been limited, the Bureau launched an aggressive recruitment campaign designed to restore the overall profile of minorities and women to the work force. Stressed in this campaign has been Executive Order 12320, the President's Initiative on Historically Black Colleges and Universities and the Federal Equal Opportunity Recruitment Program (FEORP). Under these authorities, recruitment visits were made to a number of schools with heavily black and Hispanic populations to identify the most highly qualified candidates. At each school, every effort was also made to interest women in the essentially nontraditional occupations of inspector and special agent which carry out the Bureau's law enforcement responsibilities. Results achieved were outstanding, with nearly 75 percent of these hires being minorities and women.

Lastly, we have prepared and forwarded to the Equal Employment Opportunity Commission the first accomplishment report under our 5-year plan. Achievements were clearly in line with our established goals and objectives.

Mr. Chairman and Members of the Subcommittee, this completes my statement. I will be happy to answer any questions you may have.

ADDITIONAL COMMITTEE QUESTIONS

ALCOHOL OCCUPATIONAL TAXES

The federal government imposes ten occupational and related excise taxes on the alcohol beverage industry. The taxes are assessed on breweries, still manufacturers, wholesalers and retailers and range from $2.20 per month to $255 per year.

By far the largest share of the $21 million these taxes generated in 1983 came from the approximately 700,000 retail alcohol establishments in the U.S. Retailers are liable for an annual tax of either $24 or $54 depending on whether they sell beer ($24) or liquor ($54).

Retail alcohol occupational taxes have been plagued with high noncompliance. A 1976 GAO study (GGD-75-111, January 16, 1976) found a noncompliance rate of 27 percent. The recently completed "Grace Commission" study estimated noncompliance to be as high as 60 percent. Moreover, GAO's current work in the area, although not yet complete, indicates noncompliance has probably increased beyond the 27 percent rate it found in 1976.

The Bureau of Alcohol, Tobacco and Firearms (BATF) recognizes the noncompliance problem and has intensified its compliance efforts through increased public awareness. Efforts include contacts with alcoholic product trade associations, state liquor licensing organizations, and advertisements with the local media. BATF feels these actions are a cost-effective method of increasing compliance.

Question: Recognizing that noncompliance seems to have increased despite efforts to better inform liable taxpayers, do you believe other compliance efforts are needed? If so, specify what additional efforts are needed.

Answer: The Grace Commission has made a recommendation that wholesalers of alcoholic beverages (already required to hold Federal permits and pay wholesaler special tax) be required to check that retailers have paid the special occupational tax prior to selling to the retailers. As a statutory change would be required to implement this recommendation, ATF has prepared a draft bill, as required, and submitted it to the Department of Treasury for subsequent action.

Apart from this Grace Commission recommendation, ATF believes increased enforcement efforts should now be applied to this program to reverse this trend of noncompliance. ATF will request additional resources in next year's budget request in an effort to improve retail special occupational tax compliance and effect the collection of $3 million from about 20,000 delinquent retailers in the first year, with additional collections in future years. This collection effort would also increase our visibility in this area and would result in increased industry compliance.

In addition to the above, we are presently assisting GAO in a special occupational tax survey and have collected in excess of $96,000 from 281 locations.

Question: In the past BATF related revenue received from occupational taxes to the total operating budget of the agency and did not believe that compliance rates were that germane since the revenue generated required relatively little compliance efforts.

What is the agency's present position with regard to revenue and compliance? What is an acceptable compliance level?

Answer: The cost to the government in collecting over $21 million in FY 1983 was slightly over $1 million.

In addition to being a revenue source, these taxes also serve as a form of "registration" under the tax code of these particular establishments. These establishments typically deal only in taxpaid goods; however, they are subject to recordkeeping requirements under the Internal Revenue Code. This "registry" and the required records prove useful to ATF in investigating IRC violations by wholesale liquor dealers and would also be extremely useful in the event of an excise tax increase resulting in a floor stocks tax liability at these establishments. A similiar relationship with tobacco distributors would have been helpful in last year's efforts to ensure collection of the floor stocks tax resulting from the cigarette tax increase.

ATF would like to see a much higher rate of compliance in this area but believes the rate of compliance is tied to the level of effort expended in the program. Staffing and budget reductions in the past have caused us to divert all staffing from this program into higher priority programs. A combination of the implementation of the Grace Commission recommendation and future staffing increases would result in a compliance rate of near 95%, which ATF believes is an acceptable level.

FIREARMS OCCUPATIONAL TAXES

The National Firearms Act of 1934, as amended, imposes special occupational and related excise taxes on importers, manufacturers and dealers in a select class of weapons. These taxes are imposed on "gangster" or Title II weapons which include machine guns and other automatic weapons, sawed-off shotguns and rifles, silencers, destructive devices (bombs, grenades, etc.) and other specialty weapons (guns made from canes, ballpoint pens, etc.)

These taxes were enacted to restrict the "gangster type" of weapon. The tax rates are $500 per year for importers and manufacturers and $200 per year for dealers. In addition, a $200 tax on each weapon made or transferred is imposed. The tax forms for payment of the per weapon taxes are also used as a mechanism to register the weapons.

Prior to formally accepting the making and transfer tax/registration forms, BATF is required to determine that the applicant is not a convicted felon, drug addict, illegal alien, mentally disturbed, and under age. In addition, BATF also determines if possession of the weapon would be a violation of the state law where the applicant resides. There are over 200,000 "gangster type" weapons registered to private citizens in the United States.

Question: Does restricting the possession of these weapons through tax laws present any unique problems? Specifically, what are the impediments and how could they be overcome?

Answer: There are some unique problems that should be pointed out:

(a) The restrictions imposed by the tax laws does not allow NFA information to be divulged to anyone except the registrant or Federal agencies. Although a local police department would be very interested to know that one of their citizens has a machine gun in his home, this information cannot be provided, even when they have a current investigation involving the owner.

Any lessening of these restrictions would require a modification to Title 26 U.S.C. 6103, subpart O.

(b) There are numerous cases where the owner of an NFA weapon has moved, but no notification is made to ATF.

Chapter 53 does not specifically indicate that notification is needed each time an individual moves. This would also require a change in the laws.

(c) Because there is no requirement that a special (occupational) taxpayer dispose of the firearms accumulated under his license when he goes out of business, an individual can pay the $200 taxes required as a dealer, acquire as many firearms from other dealers as he wishes without paying the $200 per weapon transfer tax, then go out of business after having acquired a good collection of NFA firearms by paying only the one $200 fee for each year of business. (Ninety percent of the special (occupational) tax stamp holders are in the $200 class.)

Question: In 1934, the Congress believed the $200 per weapon tax would be a deterrent to acquiring these weapons. The rate has not changed in 50 years. Do you believe the tax is still a deterrent? Does the $200 per weapon tax cover BATF's cost to process the forms as well as other incidental costs?

Answer: Neither the special (occupational) taxes nor the transfer/making tax on NFA weapons can be considered a deterrent. According to the Bureau of Labor Statistics' estimate of December 1983, inflation alone would raise the $200 registration fee to $1,500.

In addition, the number of special (occupational) taxpayers has increased about 300% in the past 5 years. Increases for the first 9 months of this fiscal year has already surpassed the entire FY 83 increase. Transfers to individuals have increased about 70% over the past 5 years. The tax exempt transfers between NFA dealers have increased about 80% in the past 5 years. Combining the special (occupational) tax and the transfer/making tax, of which about one-half is collected directly by IRS, about $1.185 million was generated in FY 1983.

GAO is currently conducting a study to determine if NFA taxes are sufficient to cover costs. However, that report is not expected to be ready until about June 1984. Due to the time constraints, it is not possible to arrive at a total cost of the NFA registration system and related activities. However, it is highly unlikely that the $1.185 million generated in FY 1983 covered the cost of the 17 NFA employees, benefits, facilities, forms, postal, field investigations conducted by special agents, IRS collection, equipment and other expenses.

FINANCIAL EXCISE TAX AUDITS

In 1979, BATF established an audit staff to conduct financial audits of alcohol and tobacco excise tax payers. The decision to conduct these audits was based on a GAO recommendaton (GGD-76-91, Apr. 8, 1977) and a series of pilot studies which showed that the audits would be an effective method for protecting alcohol and tobacco excise tax revenues. For several consecutive years, Treasury Department and BATF officials testified at the congressional appropriations hearings on the importance of developing the audit staff. They said that such a staff was necessary to implement a new post-audit approach for protecting tax revenues under the all-in-bond system for taxing distilled spirits, which was instituted under the Distilled Spirits Tax Revision Act of 1979.

The information submitted for the fiscal year 1984 Senate appropriation hearings record, however, BATF said that it is no longer conducting separate financial audits. Instead, its major revenue protection efforts consist of "tax compliance examinations". According to BATF, the examinations involve the application of audit techniques and skills regardless of whether they are performed by BATF's inspectors, auditors, or both. In this regard, BATF's budget provided for 26 auditor positions. Also, BATF indicated that the inspectors were being trained to use taxpayer's books of account and other financial records for determining excise tax liabilities.

Question: What are the major differences in the objectives, scope, and methodology of the audit, inspection, and examination methods?

Answer: The terms audit, inspection and examination are not indicative of different methods. In that most ATF compliance operations field personnel are inspectors, "inspections" is a natural term for their work. As the audit approach was stressed, even before the inception of an in-house audit staff, revenue related assignments came to be referred to as audits. With the arrival of auditors, the term audit tended to be limited to assignments done by auditors. The term examination is used to refer to the same inspections/audits whether conducted by auditors, inspectors, or a mixed team.

With respect to a full-scope review of an alcohol or tobacco excise taxpayer's tax returns and compliance with the law and regulations, there is no difference as to objectives and scope, regardless of the personnel assigned. We have noted some difference in methodology for those examinations conducted exclusively or led by audit personnel due to their prior training and experience, but do not find that this difference necessarily results in a better end product.

Question: How many examinations were conducted in fiscal year 1983? What percentage of these examinations included an audit of the taxpayer's books of account and other financial records? Do you plan to increase this percentage in fiscal years 1984 and 1985? What criteria is used to determine whether or not financial records should be reviewed during an examination?

Answer: In FY 1983, 1,921 revenue protection assignments were completed. An "audit of the taxpayer's books of account and other financial records" would be included in none of these examinations if that phrase means a review approaching the scope and breadth of a public audit, an income tax audit, or even a contract audit wherein all phases of an auditee's operations and finances (including such elements as contributions, salaries, business expenses, etc.) are relevant to the determination of taxable income, financial condition, or other audit objective. On the other hand, if the question relates to the use of relevant financial records and books in reviewing excise tax payments, wherein quantities produced, on hand, received and removed of a particular commodity are the sole determinant of liability, then all of the examinations would have dealt with such financial records.

The extent and depth of utilization of financial records and books has tended to increase with the advent of auditors and the increasing accounting/audit expertise of our inspector personnel. Also, the number of special, government only, records has been drastically reduced by recent deregulatory actions. This increased involvement should continue.

As noted above, review of relevant financial records and books is standard practice.

Question: How many auditor positions are included in your fiscal year 1985 budget? How many auditors are currently on board? What percentage of the auditors' time is being spent on revenue protection inspections?

Answer: There are currently 34 auditors on board, with an authorized level of 51 for FY 1984 which includes managers in the Office of Compliance Operations. Because of alcohol program reductions in FY 1985, we will be unable to fill the currently vacant positions.

In FY 1983, ATF auditors in the field spent 42.5 percent of their chargeable direct time on revenue examinations, 47.9 percent on arson assists, and 9.6 percent on other assist work. This compares to 63.8 percent on examinations and 12.4 percent on arson in FY 1982. The shift to arson reflects an increasing level of requests for such assistance by Law Enforcement activities and the increased expertise of "non-audit" personnel. Auditors' expertise in full scope financial auditing is particularly valuable for the types of analyses required and the frequent requests to serve as expert witnesses in arson cases.

Question: How many inspectors have the 24 semester credit hours of accounting required for government financial auditor positions? Is any financial audit work being performed by inspectors who do not meet this requirement?

Answer: As of February 1984, 29 inspectors have 24 or more semester hours of accounting. One hundred fourteen have 12 or more semester hours. These numbers are of a total of 378 field inspectors.

The second question assumes that ATF performs full scope "financial audits" per se. We extensively apply audit techniques and procedures in our revenue protection examinations, but such examinations also require a high level of special industry expertise and knowledge of the laws and regulations that are not related to accounting education or experience. Inspectors and auditors are selected to be examination team members or leaders based on the best available combination of skills, audit and other, for the particular assignment. In the course of the examination, "financial audit" type work would be delegated to or supervised by the team member or members with the stronger audit background and skills. However, given the limited number of auditors and of inspectors with 24 or more semester hours of accounting, the "audit" work will be performed in many cases by individuals lacking that level of formal accounting training.

Question: What type of accounting or audit training is being provided for the inspectors? How many inspectors have received this training? How much does this training cost? Is this training intended to increase the number of inspectors who meet the 24 semester credit hours of accounting required for financial auditor positions? Is this training being provided in lieu of hiring additional auditors? If so, was an analysis performed to compare the costs of training inspectors with the costs of hiring additional auditors?

Answer: Inspectors have been provided with two kinds of accounting or audit training. One is a two week in-house Audit Techniques course, developed in 1979 by a college accounting professor on contract to ATF for those inspectors who already had 12 or more semester hours of accounting. This course was adapted in 1982 for presentation to all inspectors by a team consisting of experienced ATF auditors and inspectors with strong accounting skills. Topics include audit planning, workpapers, sampling, internal controls and ADP auditing. The second type of available training is attendance at accounting courses offered by colleges and other institutions which is provided to the extent that funding permits.

In FY 1983 and to date in FY 1984, the in-house training was provided to 235 inspectors at an average cost of $900 per person (which includes per diem and travel expenses to a central location). In FY 1983 inspectors were reimbursed for 32 out-bureau accounting courses at approximately $300 average cost per course.

The aforementioned training is not intended to increase the number of inspectors who meet the 24 semester hours required for financial auditor positions. Nor is it provided in lieu of hiring additional auditors. Therefore, no analysis to compare the costs of training with the costs of hiring additional auditors was necessary. In this context, it is germane that the process of familiarizing even the experienced auditors we have tended to hire with industry practices and the technicalities of the applicable law and regulations is not cost-free. The learning curve in this respect has tended to inflate auditors' time to complete examinations of typical facilities to well above historical averages.

TAX LIABILITY

QUESTION: Mr. Walker, the average tax liability for alcoholic beverages in commerce is at least $31 billion. This budget proposes to cut ATF's ability to safeguard that tax revenue by 49%. If the $31 billion belonged to you, would you reduce your resources for protecting it by 49%? If your answer is no, why do you think the Treasury should?

ANSWER: Yes, I would make the same sort of reductions given the same set of circumstances, such as a need to hold down overall Federal spending and to balance needs against available resources. More efficient protection of the $31 billion frees up resources for other important needs within the overall budget constraints faced by the Department.

QUESTION: When we look at the total Treasury Budget, we see a substantial increase for the IRS to protect revenues due to the government. Why are revenues and tax dollars due to the government and collected by ATF less important than revenues and taxes collected by the IRS?

ANSWER: All revenues are equally important. The reduced level of resources requested for ATF reflects our considered judgment that further savings and efficiencies are available in the ATF alcohol program. The Department came to a different conclusion when the needs of the Internal Revenue Service were evaluated.

QUESTION: This budget tells Congress that ATF can incur a 49% cut in its revenue collecting capability and still get the job done. I commend ATF for that. Do you have an opinion on whether or not Commissioner Egger and the IRS could take a 49% cut and still collect the same amount of taxes due? Maybe we ought to call Commissioner Egger as an expert witness to determine if any tax collecting agency can sustain a major reduction in personnel and still collect the same amount of taxes?

ANSWER: Although I am not involved in the formulation and review of IRS's budget requests, it is my opinion that similar reductions are not possible. The ability of the two agencies to maintain results with reduced resources is not necessarily comparable. Compared to IRS, ATF deals with a highly concentrated and much more stable universe of taxpayers.

Federal Law Enforcement Training Center

STATEMENT OF JOHN M. WALKER, JR., ASSISTANT SECRETARY, ENFORCEMENT AND OPERATIONS

ACCOMPANIED BY:

- **CHARLES F. RINKEVICH, DIRECTOR, FEDERAL LAW ENFORCEMENT TRAINING CENTER, GLYNCO, GA.**
- **DAVID W. McKINLEY, DEPUTY DIRECTOR, FEDERAL LAW ENFORCEMENT TRAINING CENTER**
- **WILLIAM M. KELSO, ASSISTANT DIRECTOR, RESOURCE MANAGEMENT, FEDERAL LAW ENFORCEMENT TRAINING CENTER**
- **JOHN C. DOOHER, ASSISTANT DIRECTOR, WASHINGTON OFFICE, FEDERAL LAW ENFORCEMENT TRAINING CENTER**
- **ARTHUR D. KALLEN, DIRECTOR, OFFICE OF BUDGET AND FINANCE, DEPARTMENT OF THE TREASURY**

PREPARED STATEMENT

Senator ABDNOR. Our next witness is Mr. Rinkevich, Federal Law Enforcement Training Center.

Mr. Rinkevich, we want to welcome you to the committee. We have Secretary Walker with us.

I remind you your entire statement will be made a part of the record.

[The statement follows:]

STATEMENT OF CHARLES F. RINKEVICH

Introduction

Mr. Chairman and Members of the Committee, I am pleased to be here today to report on the operations of the Federal Law Enforcement Training Center and to support our appropriation request for fiscal year 1985.

At this time, I would like to introduce the representatives of the Center who have accompanied me: David W. McKinley, Deputy Director; William M. Kelso, Assistant Director for Resource Management; and John C. Dooher, Assistant Director for our Washington Office.

In the one year that I have been associated with the Center, I have strengthened my belief in the benefits and advantages of consolidating the training of Federal law enforcement personnel at one facility. My appreciation for the professionalism and innovative approaches displayed by Center staff in developing our various training programs and facilities to their current level of excellence has also grown significantly. Our achievements this past year are many, and I am pleased to briefly acquaint you with them.

The experiment which this subcommittee set in motion over 16 years ago, the operation of a consolidated training Center for Federal law enforcement personnel, is an unqualified success. The Center provides high quality training for our Nation's law enforcement personnel, and we do it on a continuing basis at the lowest possible cost. From my knowledge of the history and development of the Center, I do not believe anyone expected it to fulfill its potential as rapidly and completely as it has. To illustrate this, let me point out that basic training for virtually all Federal law enforcement personnel is now conducted at the Center. And, because of the establishment of the National Center for State and Local Law Enforcement Training which I will discuss later, Glynco is fast becoming a significant provider of advanced and specialized training for our non-Federal colleagues.

The degree to which the Center has become the focal point for Federal law enforcement training is further illustrated by the fact that 17 of our 51 participating organizations maintain permanent staff at the Center to assist in their basic training and to also conduct advanced and specialized training to meet their specific statutory or mission responsibilities. These organizations did not relocate or establish these offices simply to maintain a presence at the Center, but did so to take advantage of the excellent and economical programs, facilities and support services provided. The cost effectiveness of operating a consolidated resident training Center has never been more obvious than during this period of fiscal restraint. The most evident saving is the cost for housing and feeding students. Current per diem rates in Washington and other major cities is $75.00, while the Center is currently housing and feeding students for $19.65 per day. The fact that the Center has been able to effectively respond to the training needs of the growing number of participating organizations attests to the soundness of the consolidated training concept. Glynco's ability to steadily expand its operations to accommodate multiple agency requirements during a period of continued budget reductions is due to the deliberate exploitation of the economies of scale which are a consequence of a consolidated facility.

During the remainder of my remarks, I will further amplify on the trends and other specific achievements and goals I believe will be of interest to you.

New Participating Organizations

In my last appearance before this Committee, I reported that the success of the transfer of training operations of the Bureau of Prisons and Drug Enforcement Administration to the Center had surpassed our expectations. Both organizations have now become full-fledged members of the growing Glynco family. They are very pleased with the results of their move and have been able to improve the quality and reduce the cost of their training programs due to the fine support services and facilities we provide.

During Fiscal 1983, the Center welcomed three more organizations to Glynco. The Department of State transferred its law enforcement training to the Center and has already begun working with us on the development of new programs which promise to have far reaching effects, both domestically and internationally. The Environmental Protection Agency, a long time participant on a space available basis, is now a participating organization and is taking advantage of a specially designed investigative program for their technical personnel. With the approval of our Board of Directors, civilian investigators of the Naval Investigative Service now attend our basic Criminal Investigator Training Program, making NIS a full participatant organization.

Some participating organizations which are now conducting training at sites other than Glynco are analyzing the feasibility of relocating to the Center. For example, we have had recent discussions with the Department of Interior concerning the potential for increasing the Bureau of Indian Affairs' participation at Glynco to allow the closing of their academy located in Utah. Consideration is also being given to the inclusion of the President's Council on Intergrity an Efficiency (PCIE) as a signatory to our Memorandum of Understanding. Under the PCIE auspices, all statutory Inspectors General would become participating organizations at Glynco.

Export Program

Based on the success of some limited experimental programs, the Center has expanded the export of certain training programs to field locations where there is a geographical concentration of potential students. During this past year, we continued to export a one-week program in the investigation of Procurement and Contract Fraud, primarily for Inspectors General personnel. This course was presented on ten occasions at various locations around the Nation. We also developed, and are now implementing, a modified basic Criminal Investigator Training Program which will meet the training needs of investigative personnel whose duties do not require them to carry firearms or make arrests, since training in these subjects is generally not feasible on an export basis. Also, a Computer Fraud Training Program has recently been developed and pilot tested. We plan to implement this program as part of our resident training schedule this spring. The conducting of the off-site programs has the advantage of greatly reducing the backlog of training requests, especially those from the Inspectors General community. We will continue to develop this cost-effective method of training by exporting training in those subjects which do not require the resident support services and the special training facilities available only at the Center.

State and Local Training

During fiscal year 1982, a Memorandum of Agreement between the Departments of Treasury and Justice was signed to implement recommendations of the Attorney General's Task Force on Violent Crime calling for an expansion of training opportunities for State and local law enforcement personnel. This agreement, and subsequent feasibility assessments, resulted in the February 1983 creation of a new organizational element for administering and further developing State and local law enforcement training at the Center. Our National Center for State and Local Training concentrates on improving on advanced and specialized skills for field personnel, and trainers of field personnel. We are careful to insure that our State and local training efforts focus on areas of existing special Federal expertise and avoid duplication of training otherwise available at local, State or other training facilities. Initially, funds for the development of this initiative came from Law Enforcement Assistance Administration reversionary funds. Continued funding is now planned via program support from other organizations, as well as participant tuition payments.

The National Center currently has fourteen (14) programs, and in FY 1985, there will be twenty-two (22) programs available to meet State and local needs. In FY 1983, there were 891 graduates, who were provided 1,230 student weeks of training. The National Center currently projects that 1,110 State and local students, involving 1,463 student weeks of training, will graduate in FY 1984, and that 1,404 students, involving 1,992 student weeks, will graduate in FY 1985.

As part of our State and local training efforts the Center continues its agreement with the Office of Juvenile Justice and Delinquency Prevention (OJJDP) for the preparation and delivery of juvenile justice related training seminars. The purpose of these three-day seminars is to provide the executives of State and local law enforcement agencies with an understanding of the emerging policy issues in the juvenile justice system and to introduce them to management strategies to better integrate juvenile services into the mainstream of law enforcement activities. These seminars are specifically designed for law enforcement policy makers and executive-level decision makers.

Other juvenile justice seminars designed for operational and field-level personnel, will be developed and implemented as sequential phases of the initial seminar effort. The first of these follow-on offerings is a program on "Child Abuse and Exploitation Investigative Techniques", which is undergoing review and pilot testing at this time. Curriculum development, lesson plans, and other costs associated with the development of these seminars are being completely funded by OJJDP.

Salaries and Expenses

The fiscal year 1985 budget request for the Federal Law Enforcement Training Center is $16,964,000. This represents an increase of $2.3 million, or 15.7% over the fiscal year 1984 Continuing Resolution level of $14,664.000. The requested level provides funds for 60% of basic training requirements and also provides increases of $2.1 million for minor construction and maintenance, and $320 thousand for replacement equipment.

This budget request includes funds to train 1,670 students in basic programs, representing 12,740 student weeks, for an Average Resident Student Population (ARSP) of 245. In addition, based on the information currently available from the participating organizations, the Center will also conduct a substantial amount of training on a reimbursable basis. Combined, this training reflects an ARSP of approximately 1,200. Based on previous years' experience, we anticipate that these projections will be adjusted in accordance with each participating organization's actual budget authorization.

Approximately 65 percent of training will be devoted to basic and follow-on basic training. The remaining 35 percent of training will be devoted to AIRS and State and local programs. The Center is prepared to accommodate, on a reimbursable basis, additional training requests from the participating organizations which are above the funded level, so long as space is available.

Plant Operations

The Center consists of 1,500 acres, with over 100 buildings with 1.4 million square feet of space.

In fiscal year 1979, the House and Senate Appropriations Committees instructed the Center to use previously appropriated construction funds for on-going requirements for repairs, alterations, minor construction and equipment for facilities at Glynco. Through September 30, 1983, the Center had obligated approximately $8.8 million for these purposes. It is projected that the remaining construction funds will be obligated in fiscal year 1984. Beginning in fiscal year 1985, it will be necessary for the Center to rely on the Salaries and Expenses appropriation for these requirements, and a $2.1 million line item request is included in this submission for that purpose.

The Center has recently completed or currently has underway several major plant improvement projects. Repair and renovation work is in progress on a number of existing masonry buildings, and resurfacing a portion of the Center's roadways. We will soon begin interior and exterior renovation of a number of our unique practical exercise houses which have serously deteriorated.

Because the Government has invested a substantial sum in the creation of up-to-date training facilities at the Center, we believe that it is very important for these facilities to be timely maintained in a proper fashion.

Types of Training

I will now comment briefly on the types of training which are conducted at the Center.

In the aggregate, the Center graduated 12,249 students in FY 1983, and we expect to have 18,153 graduates in FY 1984, according to our participating organizations' projections. Our FY 1984 training, in terms of student weeks by category of training, represents a mix of 53% basic/integrated, 20% follow-on basic, and 27% advanced and specialized. In FY 1985, we project a mix of 50% basic/integrated, 14% follow-on basic, and 36% advanced and specialized.

Basic Training

The basic training programs for investigators and officers conducted by the Center range in length from 5-to-17 weeks.

During fiscal year 1983, a total of 4,064 students graduated from basic and follow-on basic programs. The Center's training staff and faculty continue to improve existing programs and to develop new programs to meet changing requirements and accommodate the training needs of additional participating organizations.

Criminal Investigator Training - During fiscal year 1983, 589 students were trained in the basic 7-week Criminal Investigator program. In fiscal year 1984, we will train 1,755 students, and in fiscal year 1985, we project 1,174 students. The majority of this increase is due to accelerated hiring related to the establishment of the narcotics task forces and the protective details for presidential candidates.

Police Training - The basic training programs for uniformed police officers graduated 1,472 students during fiscal year 1983 and we project 2,784 students will graduate from the eleven different police programs during fiscal year 1984. In fiscal year 1985, we will train an estimated 2,237 police recruits.

Follow-on Basic Training - Several organizations conduct additional agency specific training for their entry level employees at Glynco. This training is provided after an employee has completed a basic program, but during the first year of a probationary period. During fiscal year 1983, 2,003 students received this training and 3,437 students will receive follow-on basic training in fiscal year 1984. In fiscal year 1985, we will train an estimated 2,442 students in the follow-on basic training programs. While much of the increased workload in this area is attributable to the opening of new correctional facilities which will be staffed by Bureau of Prisons employees, it also reflects follow-on training for narcotics task force personnel.

Advanced, In-Service, Refresher & Specialized (AIRS) Training -Another major category of training conducted at the Center is Advanced, In-Service, Refresher and Specialized programs. These programs are conducted by both the Center (CAIRS) and the participating organizations (PAIRS).

Center AIRS Training (CAIRS) - The Center conducts advanced and specialized training for journeyman investigators and police officers in subjects that are common to two or more organizations. During fiscal year 1983, these programs accounted for 969 graduates. In fiscal year 1984, 1,672 students are estimated, and in fiscal year 1985, projections are for 1,429 students. Many of these students will attend the two-week White Collar Crime Seminar, which was established in 1979, and the one-week Procurement and Contract Fraud Program, which was developed and first offered in fiscal year 1982. As I mentioned previously, in FY 1983, we began developing a Computer Fraud Training Program, which is now being pilot tested. Subsequently, a continuing schedule of offerings will be established for the remainder of FY 1984. Each of these three programs have been developed for the Inspectors General activities and support their efforts to combat waste, fraud and abuse in Federal programs. During FY 1983, new programs, such as the National Wildfire Investigation course and Archeological Resources Protection course, were completed and delivered for the first time.

During the remainder of fiscal year 1984, work will continue on the development of programs to meet the needs of participating organizations in areas such as Undercover Investigative Techniques, Technical Investigative Equipment, and Violent Extremist Groups in America. In certain cases, programs designed and developed for State and local law enforcement personnel will be modified and presented as CAIRS offerings for Federal personnel.

Agency AIRS Training (AAIRS) - The Center offers each participating organization the opportunity to develop and conduct advanced or specialized training at Glynco to meet the specific needs of its personnel. This training is conducted by the organization's instructional staff, with assistance provided by Center faculty as requested. All administrative and logistical support for this training is provided by the Center. This unique arrangement allows participating organizations to meet their special training requirements and, at the same time, benefit from improved facilities and the substantial cost savings available through consolidation. In fiscal year 1983, 6,325 students received AAIRS training; 7,395 students will be training in fiscal year 1984 and 8,458 in 1985.

State and Local Training (S&L) Under the auspices of the National Center for State and Local Law Enforcement Training, twenty-two advanced, specialized programs are offered to State and local law enforcement officers. In fiscal year 1983, 891 students received State and local training; 1,110 will be trained in fiscal year 1984 and 1,404 in 1985.

Productivity Improvements

We have been able to increase our productivity, without increasing our staff, through a number of improvements we made last year. For example, our administrative word processing system was expanded to meet the needs of the various training and support units of the Center and we are utilizing micro-computer technology to prepare and administer the budget.

As a result of expanding our export training programs, we are improving productivity in several ways. These programs are held in major metropolitan areas where students from various Federal organizations reside; and, therefore, they may attend without incurring travel and per diem expenses. Not only is the cost of the program cut in half, but participating employees are more productive because there is no lost travel time.

A cross-training program in our Special Training Division qualifies instructors to teach in three different branches. This improves our ability to meet peak demands and reduce overtime. This productivity improvement permitted us to schedule more training in this area with the same number of instructors and reduce overtime pay for fiscal year 1983 by 13.8 percent from fiscal year 1982.

The Center's primary mission, of course, is training law enforcement personnel, and in fiscal year 1983, we realized substantial overall productivity gains in this principle mission area. I am proud to state that we trained 18.8 percent more students in fiscal year 1983 with no appreciable increase in resources. While I hasten to add that we may not be able to sustain this type of productivity increase in the future, it is a significant one-year accomplishment.

Closing

I support the efforts and interests of the Administration and this Committee to reduce Government expenditures. At the same time, I appreciate the responsibility we have to provide the best possible training to the men and women who enforce our Nation's laws. Substantial savings are already being realized through the operation of the Center as a consolidated training facility, and we are confident that our programs are meeting the needs of a participating organizations. Our budget request reflects a concern for fiscal restraint as well as a commitment to high quality basic training.

Mr. Chairman and members of the Committee, it is a pleasure for me to present the Fiscal Year 1985 appropriation request for the Federal Law Enforcement Training Center. I recognize that the success we have enjoyed in our effort to provide high quality training at the lowest possible cost has been made possible by your enthusiastic support and the excellent cooperation of the many law enforcement organizations we serve. We look forward to your continued support and guidance as we face the challenges that lie ahead.

My colleagues and I are available to answer any questions you may have concerning this appropriation request.

BUDGET REQUEST

Senator ABDNOR. You may summarize in any fashion you care.

Who wants to go first?

Mr. Secretary.

Mr. WALKER. Mr. Chairman and members of the committee, I am pleased to have this opportunity to appear before you today to urge your favorable support for the annual appropriation request of the Federal Law Enforcement Training Center for fiscal year 1985.

INTRODUCTION OF ASSOCIATE

Before I turn my attention to this request, I would like to introduce Charles Rinkevich, Director of the Federal Law Enforcement Training Center.

Mr. Rinkevich is accompanied by other members of the Center's management staff whom he will introduce later. Also in attendance if questions arise, are representatives from the Office of the Assistant Secretary for Administration, and Arthur D. Kallen, Director of the Office of Budget and Finance, Department of the Treasury.

CENTER'S EFFICIENCY

As this committee is aware, the Federal Law Enforcement Training Center is a highly visible example of the improvement in the Government's efficiency attainable through consolidation and interagency cooperation. The Center is a success story which, we believe, both the Congress and the executive branch can point to with justifiable pride. Its mission is a central one in the President's comprehensive strategy against crime. The Center not only conducts superior quality training for the benefit of nearly every Federal enforcement agency, as well as for a growing number of State and local organizations, but it also operates its facility resources on an enviable scale of economy and efficiency.

CENTER'S CREATION

The idea for the Center was an outgrowth of the Treasury law enforcement school which served all Treasury bureaus. When the concept was expanded to include all Federal organizations, the Treasury enforcement school became the core of the new Federal Law Enforcement Training Center. The Center was created in 1970 as the result of a memorandum of understanding with participating organizations, whose collective resolve was to improve the training of Federal law enforcement officers throughout this country. The Department of the Treasury is responsible for administering the Center's operations. An eight-member Board of Directors, representing a cross section of the Federal enforcement community, provides the direction and approval for training programs and policies.

Since 1975, the Center has occupied its present location at Glynco, Ga., which consists of over 100 structures on a 1,500-acre, deactivated military site ideally suited for law enforcement training. One of the enormous benefits afforded by this consolidation into a single, first-rate training facility has been the improved spirit of cooperation, appreciation, and understanding of the varied statutory enforcement activities carried out by all Federal organizations. On any given day, a visitor can see firsthand evidence of the exceptional learning environment provided by Glynco. Core instruction programs are provided as a common backdrop for all new law enforcement hires to the Federal service. In addition, there are many visible examples of the specialized training peculiar to specific agency needs, such as, Customs inspectors operating a mock port-of-entry site, Inspector General employees learning how to investigate a computer fraud allegation, and Drug Enforcement agents executing a search warrant on a fabricated clandestine laboratory.

COST EFFECTIVENESS

Although the quality of training is of great importance to Glynco, it is the Center's cost avoidance feature that makes it stand out among Government agencies. Three factors account for this: The consolidation of 51 separate agency training efforts in one location; the closure of several costly and duplicative training facilities previously used; and the economy in per diem expenses realized from the use of a single residential site. Annually, the Glynco operation represents an estimated $20 million in savings to the American taxpayer.

FISCAL YEAR 1983 ACCOMPLISHMENTS

Fiscal year 1983 was an extraordinary year for the Center in many respects. To meet the demands for basic training, particularly in support of the administration's effort to combat illicit drug trafficking, the Center operated at near peak capacity throughout the year. For all Center programs there was a total of 12,249 students and 42,597 student weeks of training, as compared with the previous fiscal year in which 11,383 students and 31,138 student weeks of training were conducted. This training ranges from a few days to 17 weeks in length. In addition to basic training, the Center's programs encompass advanced, inservice, refresher, and specialized training for seasoned Federal officers.

STATE AND LOCAL TRAINING EFFORT

A highlight for the Center in fiscal year 1983 was the establishment of the National Center for State and Local Law Enforcement Training at Glynco. This activity, which is a prominent part of the administration's anticrime program, formally began operations on February 1, 1983, after a joint Treasury/Justice pilot program established its need. The National Center will serve as a focal point to develop and conduct training in support of the specialized needs of State and local organizations. The emphasis for this effort is on training that is unavailable to State and local organizations and can be provided economically through the unique resources at Glynco. Through the end of fiscal year 1983, the National Center trained a total of 891 students from State and local agencies; 14 programs were offered that were either exclusively for State and local needs or included on a space-available basis in existing Federal programs.

PENDING APPROPRIATION REQUEST

The pending appropriation request for fiscal year 1985 is $16,964,000, an increase of $2.3 million above the fiscal year 1984 level of $14,664,000. The additional funds requested are necessary to maintain current operational levels and to meet certain uncontrollable expenses, including increases in travel costs. Also, there is included a request for $2.1 million in no-year funding for necessary repair, alterations, minor construction, and related equipment for Center facilities. This money is critical to maintaining the $40 million investment that the Government has made at Glynco. This request is necessary to replace the depleted construction account which has been utilized since fiscal year 1979.

Mr. Chairman, the Treasury Department is deeply committed to maintaining the excellence of the Federal Law Enforcement Training Center and its preeminence in the law enforcement training field. We believe this appropriation request will allow Treasury to obtain this goal. At the same time, this appropriation request reflects the hard realities of the current budget environment and the continued fiscal restraint to which the administration is committed. With this funding level, the Center can continue to meet its primary missions related to crucial basic training and facility operations. As in the past, the Center anticipates that other training requirements will be accommodated on a reimbursable basis.

I now will ask Director Rinkevich to provide further elaboration on the Center's operations and funding request. Following that, we will be happy to answer any questions.

Senator ABDNOR. Thank you.

Mr. Rinkevich, you are welcome. I just want to say Senator Mattingly is a key member of this committee who would like to have been here, but he had a Military Construction Appropriations Subcommittee hearing he chairs going on at this time too, and we just cannot seem to get ourselves divided sufficiently to go to everything we would like to. He did want me to tell you he is sorry he is not here and looks forward to seeing you later.

DIRECTOR'S STATEMENT

Mr. RINKEVICH. Thank you.

Mr. Chairman, I am pleased to be here today to report on the operations of the Federal Law Enforcement Training Center and to support our appropriation request for fiscal year 1985.

INTRODUCTION OF ASSOCIATES

At this time I would like to introduce the representatives of the Center who have accompanied me: On my left is David W. McKinley, Deputy Director of the Center; on Mr. Walker's right is William Kelso, Assistant Director for Resource Management; on his right is John Dooher, who is our Assistant Director in the Washington office.

VIDEOTAPE PRESENTATION

Mr. Chairman, we are very proud of the Center, the facilities that we have there, the program we have, and the people who make it all happen; we also recognize that, sometimes, words are a bit inadequate to explain the enthusiasm and the vitality and the complexity of our operation. So with your permission, we have a videotape that we brought along with us today that we think might give you a very good perspective on what is happening recently at the Center. We would like to show you that at this time.

[Videotape shown.]

Senator ABDNOR. Very impressive.

Some day I intend to go down and visit it.

Mr. RINKEVICH. We extend a cordial invitation to you to do that.

CENTER'S FACILITY SIZE

Senator ABDNOR. How many acres do you have there?

Mr. RINKEVICH. One thousand five fundred acres.

Senator ABDNOR. One thousand five fundred acres?

Mr. RINKEVICH. Yes, sir.

Senator ABDNOR. How far out of town is it?

Mr. RINKEVICH. It is about 4 or 5 miles outside of Brunswick, which is the largest area adjacent to us.

Senator ABDNOR. All right.

CENTER ACHIEVEMENTS

Mr. RINKEVICH. Mr. Chairman, our achievements at Glynco this past year are many, and I am pleased to briefly acquaint you with them.

The Center provides high quality training for our Nation's law inforcement personnel, and we do it on a continuing basis at the lowest possible cost. Let me point out that basic training for virtually all Federal law enforcement personnel, except for the FBI and postal inspectors, is now conducted at the Center. And, because of the establishment of the National Center for State and Local Law Enforcement Training which I will discuss later, Glynco is fast becoming a siqnificant provider of advanced and specialized training for our non-Federal colleagues.

NEW AGENCY PARTICIPATION

During fiscal 1983, the Center welcomed three more organizations at Glynco, State, EPA, and NIS; others, which are now conducting training at sites other than Glynco, are analyzing the feasibility of relocating to the Center. For example, we have had recent discussions with the Department of the Interior concerning the potential for increasing the Bureau of Indian Affairs' participation at Glynco to allow the closing of their academy located in Utah. Consideration is also being given to the inclusion of the President's Council on Integrity and Efficiency—PCIE—as a signatory to our memorandum of understanding. Under the PCIE auspices, all statutory Inspectors General would become participating organizations at Glynco.

EXPORT TRAINING

The Center has expanded the export of certain training programs in those subjects which do not require the resident support services and the special training facilities available only at the Center to field locations where there is a geographical concentration of potential students. During this past year, we continued to export a 1-week program in the investigation of procurement and contract fraud, primarily for Inspectors General personnel. We also developed a modified basic criminal investigator training program which will provide essential investigative skills to the large numbers of personnel who are not required to carry firearms and make arrests, and whose training was being delayed due to heavy Center workload.

COMPUTER TRAINING

The Center also has made a commitment to the training technology and investigative needs of the world of computers and electronic funds transfer. A computer fraud training program was recently developed and pilot tested. It promises to be in high demand during this era of increased dependence on computer technology and we are planning for the enhancement of our overall training operations, utilizing ADP technology.

NATIONAL CENTER FOR STATE AND LOCAL TRAINING

The 1982 memorandum of agreement between the Departments of Treasury and Justice which implemented recommendations of the Attorney General's task force on violent crime has resulted in the creation of our National Center for State and Local Training which concentrates on improving the advanced and specialized skills of non-Federal police and their trainers. A tenet of the program is that all courses must focus on areas of existing Federal expertise and provide skills directly transferable to State and local personnel. Initially, funds for the development of this initiative came from law enforcement assistance administration reversionary funds; continued funding is now planned via program support from other organizations, as well as participant tuition payments. The National Center currently has 14 programs, and in fiscal year 1985, there will be 22 programs available to meet State and local needs. The National Center projects that 1,100 State and local students will graduate in fiscal year 1984, and that 1,400 students will graduate in fiscal year 1985.

PENDING APPROPRIATION REQUEST

Regarding salaries and expenses, the fiscal year 1985 budget request for the Federal Law Enforcement Training Center is $16,964,000. This represents an increase of $2.3 million over the fiscal year 1984 continuing resolution level of $14,664,000. This level provides $2.1 million for minor construction and maintenance, and $320,000 for replacement of training equipment.

CONSTRUCTION FUNDS

I should point out, Mr. Chairman, that the $2.1 million for our minor construction and maintenance activity will replace construction funds that have always been available to the Center. The increase in this year's budget document reflects those dollars that were always available. Our existing construction account is now being exhausted, at least by the end of this year, so our actual increase is much smaller than the $2.3 million thatI have outlined.

Insofar as our plant operations are concerned, the Center consists of 1,500 acres, and over 100 buildings with 1.4 million square feet of space with an estimated value of approximately $100 million.

In fiscal year 1979, the House and Senate Appropriations Committees instructed the Center to use previously appropriated construction funds for ongoing requirements for repairs, alterations, minor construction, and equipment for facilities at Glynco. Through December 31, 1983, the Center had obligated approximately $8.8 million for these purposes. It is projected that the remaining repair and alteration funds will be obligated during the remainder of fiscal year 1984. Beginning in fiscal year 1985, it will be necessary for the Center to rely on the salaries and expenses appropriation for these requirements, and a $2.1 million line item request is included in this submission for that purpose.

CENTER TRAINING

Before I comment briefly on the types of training which are conducted at the Center, I am proud to note that the Center's training staff and faculty continue to improve existing programs and to develop new programs to meet changing requirements and accommodate the training needs of additional participating organizations.

In the aggregate, we expect to have over 18,000 graduates in fiscal year 1984 and 17,000 in fiscal year 1985 according to our participating organizations' projections. Both of these years represent a very significant increase over the previous 6 years of operation at Glynco.

BASIC TRAINING

The basic training programs for investigators and officers conducted by the Center range in length from 5 to 17 weeks. In fiscal year 1985, the Center projects that nearly 1,200 students will graduate from the basic 7-week criminal investigator program. During the same period, we expect to train an estimated 2,200 police recruits in the various basic police programs.

FOLLOWON BASIC TRAINING

Several organizations conduct additional agency specific followon training for their entry-level employees at Glynco. This training is provided after an employee has completed a basic program, but during the first year of a probationary period. In fiscal year 1985, we will train an estimated 2,400 students in the followon basic training programs.

ADVANCED, INSERVICE, REFRESHER, AND SPECIALIZED TRAINING

Another major category of training conducted at the Center is advanced, inservice, refresher, and specialized programs. The Center conducts advanced and specialized training for journeyman investigators and police officers in subjects that are common to two or more organizations. In fiscal year 1985, projections are for an estimated 1,400 students to be trained.

The Center also offers each participating organization the opportunity to develop and conduct advanced or specialized training at Glynco to meet the specific needs of its personnel. This training is conducted by the organization's instructional staff, with assistance provided by Center faculty as requested. All administrative and logistical support for this training is provided by the Center. In fiscal year 1985, an estimated 8,500 students will be trained by the participating organizations.

CONCLUSION

Mr. Chairman and members of the committee, it is a pleasure for me to present the fiscal year 1985 appropriation request for the Federal Law Enforcement Training Center. I recognize that the success we have enjoyed in our effort to provide high quality training at the lowest possible cost has been made possible by your enthusiastic support and the excellent cooperation of the many law enforcement organizations we serve. We look forward to your continued support and guidance as we face the challenges that lie ahead.

We are now available to answer any questions you may have concerning this appropriation request.

Senator ABDNOR. Well, thank you for your fine testimony.

I know you have a very outstanding institution there. I have heard a lot of good things about it. You do a lot of good.

BIA TRAINING

I understand you have even had discussions with the Bureau of Indian Affairs about training the BIA police.

Mr. RINKEVICH. Yes, sir.

Senator ABDNOR. What kind of impact would that have on your students?

Mr. RINKEVICH. We are not quite sure at this point, Mr. Chairman. Just last week we sent staff representatives to their academy to examine the impact it would have for us on the kind of training program they would have us offer.

Senator ABDNOR. They have one of their own at Utah?

Mr. RINKEVICH. They have an academy at Brigham City, Utah, which for reasons of economy for the Department of the Interior and for reasons of quality we are told they wish to close and relocate to our facility at Glynco.

Senator ABDNOR. Do you accept all they want to train? The numbers they have been training in the past? Could you absorb that?

Mr. RINKEVICH. That would be the question which we have to resolve, given the present straining to our limits that we are going through, and we would look at that very carefully. We would not want to raise any false expectations if we could not accommodate their needs.

Senator ABDNOR. They are not closing the other one down, are they?

Mr. RINKEVICH. They have not yet, that is my understanding.

MAXIMUM TRAINING CAPABILITY

Senator ABDNOR. I seem to get more and more agencies training personnel going to Glynco. This is putting a strain on your training slots, I guess.

What is the maximum you think you could accept at a time?

Mr. RINKEVICH. The most critical area for us is the number of beds we can offer for students. We have bed space now for about 1,150 students. We can, however, accommodate a larger number than that in our dining facility and in our classroom facilities. We can accommodate about 1,700 on a daily basis in our dining facilities. But we are limited to the numbers of beds that we have, which is about 1,150.

DORMITORY NEED

Senator ABDNOR. Have you got the dormitory room? If you had dormitory room, could you take more? Is that going to be the factor? Do you need more classroom or just more space in general?

Mr. RINKEVICH. At this point we clearly believe we need more dormitory space and we are, in fact, working on a plan to expand our dormitory space.

As we commit our training facility, our classrooms to more and more specialized areas, for example the ADP area we are moving into and computer training area, we are in the position of having to commit classroom space to very specialized training activities, setting them up for computer terminals and that sort of thing, so we will very likely be facing a classroom shortage in the future as well. But at this point, we are able to accommodate in classrooms the students we can house in the Center.

CAPACITY PROBLEMS

Senator ABDNOR. Are there many times in the year you are at the maximum?

Mr. RINKEVICH. Yes, indeed. As a matter of fact, this week we are over capacity. We have 200 or so students living in local motels to accommodate the training going on.

CAPACITY FOR THE STATE AND LOCAL TRAINING EFFORT

Senator ABDNOR. It looks like the State and local personnel are going to have to cut back because of this? Or they are not going to get all of the bodies they want in there?

Mr. RINKEVICH. We have made a commitment, Mr. Chairman, to not denegrate our capacity to train Federal law enforcement personnel in order to train State and local personnel; we always reserve the right and option, when we have a State and local training program, to house the students off Center, and do that on a fairly regular basis.

The Center is not able to accommodate the growth of the State and local program that, perhaps, is out there. In addition to our capacity considerations, we are very careful to be sure that we provide quality training at the Center for State and local. We have structured the program so that our training is not duplicative of any other training that might be available at the FBI academy or other State and local facilities as well. So we look to a fairly constant level of 1,000 or more students from State and local agencies on a regular basis.

TRAINING COSTS FOR STATE AND LOCAL PERSONNEL

Senator ABDNOR. I am not a big spender. How many more dollars would it take to let you accept more of these State and local people? I think there is a lot to gain out of it. It certainly is making its mark when they go home and take over their duties and responsibilities. It is unfortunate on the other hand—do they pay their own way?

We are talking about, when the State sends you half a dozen people, my State for instance, do they pay most of the costs of keeping those people there?

Mr. RINKEVICH. Yes, sir. They pay a daily rate for food and housing, which of course is much less than it would be in Washington or other major cities.

Senator ABDNOR. Yes.

Mr. RINKEVICH. And they also pay a tuition cost for whatever class or program they are attending, and that is based on our cost of delivering that to State and locals. It ranges anywhere from $200 or $300 on the low end to one of our more expensive programs, which is the marine law enforcement training program, and that tuition is somewhere near $1,000 for a 3-week program.

Senator ABDNOR. Is that near the cost of maintaining that?

Mr. RINKEVICH. No, sir, you could not replicate those programs for that cost anywhere else. There is a certain amount of cost development absorbed by the Center, and of course our logistical and support programs are being paid for and we do not recover all the costs from the State and locals for those items.

Senator ABDNOR. Do you keep the money?

Mr. RINKEVICH. No; it goes for the actual services the students receive while there. For example, our housing and our food services are under contract, at least the maintenance of our housing accommodations, so we use those funds to pay for the cleaning of the room that they stay in and food that they eat.

Senator ABDNOR. That is all we need to ask, but we may submit some questions in writing.

As you know, we have a number of members of the committee who would like to be here. They may well come up with questions too.

We thank you for your appearance today and we commend you for the fine job you are doing down there.

Mr. RINKEVICH. Thank you, sir.

[The following questions were not asked at the hearing but were submitted to the Department for response subsequent to the hearing:]

ADDITIONAL COMMITTEE QUESTIONS

Question. The National Park Service, Forest Service, Fish and Wildlife Service, and the Bureau of Land Management all train personnel at FLETC. In prior years, all basic and advanced training was funded by Treasury. That funding has been reduced and the individual organizations are now requesting funding for payment of training at FLETC. Should Treasury return to providing total funding for training of the personnel from these agencies?

Answer. Fiscal year 1979 was the last year the Center received an annual appropriation which allowed it to fully fund all training. Since that year, there has been a gradual reduction in the amount of training funded, to the extent that fiscal year 1985 level funds 60 percent of basic training. The remaining basic and all advanced training will be on a reimbursable basis.

The Center's Board of Directors supports the full funding of all basic training and will request that the FLETC continue to submit budget requests in future years that are designed to achieve this goal.

Question. FLETC has initiated a State and local training program. Federal land management agencies have complained to the Interior Subcommittee that the State and local training has placed FLETC over capacity and, therefore, has impaired the ability of these agencies to schedule training time. Could you respond to these allegations?

Answer. On October 14, 1982, President Ronald Reagan announced a five-point national strategy to combat crime. One of the key points of this major policy statement was the creation "through the Departments of Justice and Treasury, a National Center for State and Local Law Enforcement Training at the Federal facility at Glynco, Ga."

The memorandum of agreement between the Department of Treasury and the Department of Justice establishing the National Center for State and Local Law Enforcement Training at the FLETC clearly delineates that such training will be conducted so as to insure that the training of Federal law enforcement personnel is given priority and remains the principal mission of the FLETC.

The FLETC, in cooperation with the participating Federal agencies, supports this agreement and anticipates no problems in implementing the program.

It is true that the Center has been over capacity, but this has occurred because of on site housing limitations, not the State and local training program. That program is not a factor in this capacity problem because all State and local participants are housed off Center in area motels. The housing problem relates primarily to the unusually high number of Federal basic training programs being conducted during fiscal year 1984.

U.S. SECRET SERVICE

STATEMENT OF JOHN M. WALKER, JR., ASSISTANT SECRETARY, ENFORCEMENT AND OPERATIONS

ACCOMPANIED BY:

- JOHN R. SIMPSON, DIRECTOR, U.S. SECRET SERVICE
- WILLIAM R. BARTON, DEPUTY DIRECTOR
- LARRY B. SHEAFE, ASSISTANT DIRECTOR, INVESTIGATIONS
- STEPHEN E. GARMON, ASSISTANT DIRECTOR, ADMINISTRATION
- JERRY PARR, ASSISTANT DIRECTOR, PROTECTIVE RESEARCH
- EDWARD J. POLLARD, ASSISTANT DIRECTOR FOR PROTECTIVE OPERATIONS
- JOSEPH R. CARLON, DEPUTY ASSISTANT DIRECTOR FOR INVESTIGATIONS
- JOHN L. ARMSTRONG, DEPUTY ASSISTANT DIRECTOR FOR ADMINISTRATION
- FRANK PALMER, CHIEF, FINANCIAL MANAGEMENT DIVISION
- ARTHUR D. KALLEN, DIRECTOR, OFFICE OF BUDGET AND FINANCE, DEPARTMENT OF THE TREASURY

PREPARED STATEMENTS

Senator ABDNOR. Secret Service is next.

[Discussion off the record.]

Senator ABDNOR. We are happy to have with us Mr. Simpson, of the Secret Service. It is a pleasure.

I was so busy on the phone, I did not realize what a distinguished group we have here.

Your Secretary had to leave and we have his written statement, which will be made a part of the record along with yours.

[The statements follow:]

STATEMENT OF JOHN M. WALKER, JR.

It is a pleasure for me to appear before you in support of the annual appropriation request for the United States Secret Service. Appearing with me today are the Director of the Secret Service, John R. Simpson, key Secret Service staff members, David E. Pickford, Acting Assistant Secretary (Administration), and Arthur D. Kallen, the Director of the Department of the Treasury Office of Budget and Finance.

The fiscal year 1985 request is for $275,731,000 and 4,054 average positions. However, no funds have been requested for payments to state and local governments. This program is to be assumed by the State Department in FY 1985.

The Secret Service's protective operations during the past year have been conducted smoothly. The Williamsburg Summit last May was a prime example, one that received extremely favorable response in terms of the professionalism that the Secret Service demonstrated. Similarly, the Service exhibited a high level of protective skill during the President's visit to Latin America, two extensive overseas trips by the Vice President, the UN Development Conference, and the visits of numerous foreign dignitaries to the United States.

The Secret Service has prepared itself for the onset of protective activities associated with the Presidential election. A permanent division within the Secret Service has been established to oversee the operations of all candidate and nominee details and state primary coordinating centers. The Secret Service will be supported, as in past years, with law enforcement personnel from other Treasury bureaus. Presidential Campaign activities will continue into the first four months of FY 1985, phasing out with the Inauguration on January 20, 1985.

Another major event in 1984 that will require extensive protective activity is America's hosting of the Summer Olympic

Games, which are scheduled to take place from July 28 to August 12 in and around Los Angeles, California. This event will be occurring just as the nominating conventions conclude the 1984 Presidential primary season.

Over the past twelve months, the Secret Service has maintained a vigorous enforcement program against counterfeiting and crimes involving government securities, one that has emphasized "sting" operations, task force efforts, and priority investigations with the potential for a high yield. A highlight of the past year was the arrest of an individual in Baton Rouge, Louisiana, who has headed a $6 million counterfeit conspiracy. Additionally, the Secret Service has jointly participated in a number of food stamp investigations with representatives of the United States Department of Agriculture and state and local authorities. One such investigation, conducted in Birmingham, Alabama, will ultimately result in more than 100 indictments stemming from 200 separate felony transactions. During the course of the Birmingham investigation, the defendants exchanged a total of $66,000 in USDA food stamps for $30,000 in cash and assorted merchandise. Also, the Secret Service in the past year ran a check cashing undercover "sting" operation, in which agents of the San Francisco Field Office arrested 30 individuals and recovered $230,000 in Treasury checks, a great many of which were stolen from U.S. Postal Service facilities.

Overall, in FY 1983 the Secret Service closed 19,000 counterfeiting cases, 136,000 check and bond forgery cases, and 44,000 other investigation and protective research cases.

An emphasis in this budget request has been on meeting state-of-the-art technology and equipment needs of the Service to improve the overall effectiveness of the Bureau and to increase the efficiency of its staff in carrying out its protective and investigation missions. To this end, the

Service has requested approximately $11 million for equipment modernization and ADP increases.

Overall, this budget is in furtherance of the Secretary's and the President's goal for efficient operations and fiscal restraint.

Mr. Chairman, this concludes my opening statement. I will now ask the Director of the United States Secret Service to provide you with his prepared statement, and we will then be pleased to respond to questions you or other members of the Committee may have.

STATEMENT OF JOHN R. SIMPSON

Mr. Chairman, I am pleased to appear before you and the other members of this Committee to present the annual appropriation request of the United States Secret Service and to report on our activities during the current and past fiscal years.

Introduction of Associates

With me today, Mr. Chairman, is the Deputy Director, Mr. William R. Barton, Mr. Larry B. Sheafe, Assistant Director for Investigations, Mr. Edward J. Pollard, Assistant Director for Protective Operations, Mr. Jerry Parr, Assistant Director for Protective Research, Mr. Stephen E. Garmon, Assistant Director for Administration, Mr. Joseph R. Carlon, Deputy Assistant Director for Investigations, Mr. John L. Armstrong, Deputy Assistant Director for Administration, and Mr. Frank Palmer, Chief of our Financial Management Division. Since this is the first appearance before this Committee of Messrs. Garmon and Armstrong from our Office of Administration, with your permission, I would like to insert a short biographical sketch of each for the record.

Stephen E. Garmon

Stephen E. Garmon is Assistant Director of the Office of Administration. Mr. Garmon is from Groom, Texas. He was born April 21, 1942. In 1965 he received a Bachelor of Arts degree in political science from Texas Christian University.

He was appointed a Special Agent of the United States Secret Service in 1965 and assigned to the New Orleans Field Office. Subsequent assignments have included duty with the Presidential Protective Division, Protective Support Division, and Liaison Division at Secret Service Headquarters. He also served in the Vice Presidential Protective Division for one year and then the Dignitary Protective Division for the next two years in supervisory capacities. In 1977 he was promoted to Assistant Special Agent in Charge of the Presidential Protective Division. Prior to his present position, Mr. Garmon served as an Inspector at Secret Service Headquarters and as the Executive Assistant to the Director.

Mr. Garmon received a Special Achievement Award in 1981 for his role as Secret Service Inaugural Coordinator.

Mr. Garmon is an active member of the International Association of Chiefs of Police.

John L. Armstrong

John Armstrong is Deputy Assistant Director of the Office of Administration. Previous to this appointment, Mr. Armstrong held the position of Deputy Assistant to the Director of the Office of Training. He began his career with the Service as a Special Agent in 1971 and was first appointed to the Detroit Field Office.

During his career, Mr. Armstrong has had extensive investigative and protective experience with assignments to our Detroit and Miami field offices and assignments to our Presidential Protective Division and Dignitary Protective Division. He was promoted to Assistant Special Agent in Charge of the Detroit field office in 1980 and promoted from there to Assistant Special Agent in Charge of our Dignitary Protective Division in 1982.

Mr. Armstrong is a member of the National Organization of Black Law Enforcement Executives and is an active member of the International Association of Chiefs of Police.

Mr. Armstrong was born on October 7, 1947 in Vienna, Georgia. He graduated with a Bachelor of Science degree in 1970 from Florida Memorial College, Miami.

Budget Request

The pending appropriation request for Fiscal Year 1985 totals $275,731,000, a reduction of $21,998,000 when compared with the proposed authorized level for Fiscal Year 1984. This decrease reflects substantial nonrecurring costs of the FY 1984 Presidential Campaign and Summer Olympics. However, funds have been included in the request for mandatory increases and other funding necessary to maintain programs at slightly above the FY 1983 authorized level. Program increases totalling just over $12 million will allow the Service to remain abreast of certain technological advances necessary to counter threats to our investigative and protective missions.

Before going on to tell you what we have been doing this past year, I would like to share with you a few of my thoughts as I prepared for this briefing and as I look forward to the demanding Campaign facing all of us this year.

In justifying our pending appropriation request with you today we are talking about competition; competition for scarce Federal resources necessary for effective ongoing operations. If you will afford me a few minutes, I would like to speak about another kind of competition. The men and women of the Secret Service are engaged in a competition every day; competing with those individuals who would do harm to our protectees, or those who seek to undermine the economic well-being of our country through abuse of our currency and securities.

There is a saying among sportsmen that "it's not whether you win or lose, but how you play the game." This is a fine philosophy for people engaged in recreational competition. But my feelings in directing the Secret Service have been summarized best in the words of one of the all time great football coaches, Vince

Lombardi: "(T)here is no room for second place. There is only one place in my game and that is first place."

Coach Lombardi has identified the blood and guts of all competition - winning, whether it is in athletic games or fighting crime. And if you look at the mission of the Secret Service in terms of competition, you will find a deadly game, where the risks are high and the stakes even higher.

We are competing with those who threaten the lives of our nation's leaders and those who threaten the economic well-being of our nation's economy. As the oldest Federal law enforcement body, we take great pride in our efforts to ensure safety for our protectees and in our efforts to deter counterfeiting, forgery and fraud of currency and securities.

Our success rests heavily on our ability to attract and recruit the best and the brightest men and women dedicated to our mission and its success. Demands placed on our employees defy normal standards with long periods of travel, twelve-hour shifts or longer, while living out of a suitcase and then returning to a backlogged caseload at the home office.

Under the circumstances, you might wonder how we are able to continue to recruit the best and maintain an attrition rate of less than 4 percent. Maybe, Mr. Lombardi had the answer here too when he said, "It's a reality of life that men are competitive and the most competitive games draw the most competitive men. That's why they're there - to compete. They know the rules and the objectives when they get in the game."

I am proud to say that no challenge seems too great for these men and women and their enthusiasm and dedication go unsurpassed. It seems only appropriate then that I make every effort to provide them with the resources needed to get the job done. That is why I and my colleagues are here, to ask that you continue to support our team so that we can continue to win.

It's appropriate to summarize our mission objective once more in the words of Coach Lombardi, "Winning is not a sometime thing; it's an all-the-time thing. You don't win once in a while, you don't do things right once in a while, you do them right all the time."

I hope you feel the same way about our mission and continue to support us as you have in the past. Now I would like to tell you about some of our accomplishments this past year.

Continued Increase in Activities

The past year has shown a continuing increase in the activities of the Secret Service. During Fiscal Year 1983 we provided security to protectees traveling extensively throughout the U. S. and abroad and to foreign dignitaries visiting the United States. At the same time, the problems of world-wide terrorism required extraordinary measures with respect to the protection of not only our permanent protectees but foreign missions as well.

Investigative responsibilities of the Secret Service continued to escalate following receipt of primary jurisdiction for investigating all cases of Electronic Funds Transfer fraud involving Treasury funds, in addition to other criminal jurisdiction.

Our request for equipment modernization and ADP resources for Fiscal Year 1985 is reflective of increased complexities in our responsibilities and of our need to have adequate capability to meet protective and investigative requirements.

Protective Effort

Our protective mission continues to receive our highest priority. In this regard, we are continuously evaluating new equipment and methods to assist us in providing a safe and secure environment to those persons whom we protect.

Our 1983 protective efforts were highlighted by the successful conclusion of major activities attended by world leaders including: the Economic Summit of Industrialized Nations held in Williamsburg, Virginia in May of 1983; the 37th meeting of the United Nations General Assembly which commenced in September 1982; the 38th meeting of the United Nations General Assembly which commenced in September 1983; and one of our largest foreign dignitary efforts, the visit of Queen Elizabeth II.

The scope of the Williamsburg Summit was extraordinary. Despite the fact that Colonial Williamsburg has, over the years, hosted visits of more than 100 world leaders, the 1983 Summit represented the largest and most prestigious group in attendance at one time. To ensure adequate security the entire 173-acre historical area was designated a Federal jurisdiction and closed to the public for the duration of the Summit for the first time in the Colonial Williamsburg Foundation's 56-year history. In attendance at this landmark event were: President Reagan, President Mitterand of France, Prime Minister Thatcher of the United Kingdom, Prime Minister Trudeau of Canada, Chancellor Kohl of the Federal Republic of Germany, Prime Minister Nakasone of Japan, Prime Minister Fanfani of Italy, Mr. Thorn, President of the European Economic Community, their staffs and over 2,000 national and international press who covered the event.

Protection associated with visiting foreign dignitaries continued at a high level. While preparations for the

Williamsburg Summit were ongoing, the Secret Service prepared for yet another historical event, the visit to the United States of Queen Elizabeth II of England, in March 1983. It was during the course of this visit that three of our Special Agents were killed in the line of duty. I would like to again recognize the loss of these dedicated men, George P. LaBarge, Donald W. Robinson and Donald A. Bejcek, and say that their deaths represent a grave loss not only for the Secret Service but for the American public.

Planning the logistics to make the most effective use of available personnel for simultaneous events or events in tandem called for considerable amounts of overtime and travel out of district, requiring great sacrifice on the part of all Secret Service personnel.

Accomplishments of the past year demonstrate our ability to successfully fulfill our protective and investigative mandates. In this regard, I am sure you realize that the backbone of our protective and investigative efforts is the dedicated men and women of the Secret Service who have given so unselfishly of themselves in the furtherance of our mission. I would like the Committee to know that I am tremendously proud of their performance.

Candidate and Nominee Protection

This fiscal year finds the Service dedicating a major portion of its resources toward Candidate and Nominee protection. In fact, our Candidate Nominee Protective Division is now a permanent part of our organization. Our election year activities are now so complex that we literally have to start planning for the next compaign before the last one is finished.

During FY 1984, protective travel will increase dramatically, including several important foreign trips by the President and Vice President. In addition to the heavy requirements associated with a full domestic and foreign travel agenda for the President and Vice President will be the demanding protection schedule for other Presidential candidates as they travel to state primaries and caucuses. There will also be several large scale, complex protective events. The two National Conventions being held in San Francisco and Dallas will entail massive protective planning.

We are now officially underway beginning with the Jesse Jackson protective detail which was activated on November 10, 1983. The Reverend Jackson's recent foreign trip is an example of the critical protective complexities we will face throughout this campaign. It is also understandable that with each watermark event we encounter during our campaign efforts, there always seems to be one shortly thereafter which surmounts it in dimension.

Summer Olympics

Along these lines, our campaign year will grow even more demanding. We are going to have the Summer Olympics in Los Angeles in July right at the peak of campaign activity. We are expecting about 30 protectees to attend some portion of the games. In combination with the expansive venue of the Olympic events, some sites being as much as 100 miles apart, logistical problems of the greatest magnitude must be overcome.

Protection of Foreign Heads of State or Government

The Secret Service is authorized by law to protect visiting foreign heads of state and heads of government, and at the direction of the President, other distinguished foreign visitors to the United States. Further, the President may authorize Secret Service protection to official representatives of the United States while performing special missions abroad.

The protection of foreign heads of state or government continues to be an increasingly demanding responsibility of the Secret Service requiring significant resources. Last year, 149 foreign dignitaries were afforded Secret Service protection, each visiting an average of 5 days during Fiscal Year 1983. These numbers compare to protection provided for 128 visiting dignitaries who stayed an average of 4.9 days each during Fiscal Year 1982. From the beginning of this fiscal year to January 1, 1984, we have protected 64 foreign leaders. At this rate, Fiscal Year 1984 will be another record year for dignitary protection.

Permanent Protection

During Fiscal Year 1983, the Secret Service provided permanent protection for the President and Mrs. Reagan, and members of their family; Vice President and Mrs. Bush; former President Carter and Mrs. Carter; former Presidents Nixon and Ford and their spouses; former First Lady Johnson, and Treasury Secretary Regan. During Fiscal Year 1983, these permanent protectees visited 1,377 cities, domestically and 116 foreign cities.

The resources necessary to successfully accomplish our mission during the summer and fall of 1984 will be the most massive and logistically complex in our history.

Our outlook for this year is a sober one as I am sure you can appreciate.

Assistance of Other Federal, State, and Local Law Enforcement Agencies

The Secret Service continues to rely heavily, especially during Presidential Campaign years, on the assistance and cooperation of local, state and Federal law enforcement agencies to provide maximum security for our protectees. Indeed, without this support our protective mission would be severely jeopardized, if not practically impossible, and I would like to commend them for their unselfish and excellent assistance.

Fiscal Year 1985 will be a crucial year for the Service in our relationships with state and local law enforcement agencies. Budget restraints are forcing these agencies to utilize their limited funds in areas they consider critical to the successful accomplishment of their own missions.

U. S. Secret Service Uniformed Division

The U. S. Secret Service Uniformed Division is charged with the protection of the Executive Mansion and grounds, protection of the New Executive Office Building, protection of the President and members of his immediate family, protection of the official residence of the Vice President as well as the Vice President and members of his immediate family, and the protection of foreign diplomatic missions located in the metropolitan area of the District of Columbia; and under certain circumstances, foreign missions located outside the metropolitan area of Washington.

During Fiscal Year 1983, the White House Branch Appointments Center cleared over 316,000 appointments. Our Uniformed Division tour detail conducted tours for over 1,080,000 visitors to the White House; in addition to screening all visitors, our magnetometer detail provided security for 140 special White House functions.

Our Foreign Missions Branch provided security coverage for 34 foreign dignitaries while they were in residence at the Blair House or local hotels, covered 333 Embassy receptions and responded to 1,068 emergency calls. Additionally, our Counter Sniper Program unit covered 918 events, the Canine Explosive Detection Program unit performed 4,405 searches and the magnetometer detail conducted 345 screenings. The latter function represents a new role performed by the Uniformed Division. Since the attempt on President Reagan, during certain movements of the President, where security considerations warrant it, portable magnetometers accompany the Presidential detail to assist in ensuring the President's security. Our Uniformed Division personnel have been trained to use this equipment and are now a vital part of many protective movements.

Treasury Police Force

The Treasury Police Force, a uniformed branch under the direction of the Secret Service, is charged with the responsibility of protecting life and property at the Main Treasury Building and the Treasury Annex in Washington, D.C., in addition to providing assistance in various protective assignments. This past year, Treasury Police Force personnel arrested 7 individuals, were involved in 18 protective intelligence cases and 87 criminal cases. The Force provided manpower for 771 security details and 275 escort details. The Treasury Police Force is an integral part of our security arrangement.

Field Offices

During Fiscal Year 1983, the personnel in field offices continued to devote much of their time to protective activities. Special Agents assigned to field offices conducted advance surveys for both permanent and temporary protectees visiting cities throughout the country and augmented the protective details required for visiting foreign dignitaries. Of all protection-related hours worked, a full 48% of that total was provided by Special Agents assigned to field districts. Ever-increasing protective requirements will demand the continued use of many investigative personnel in support of our protective mission.

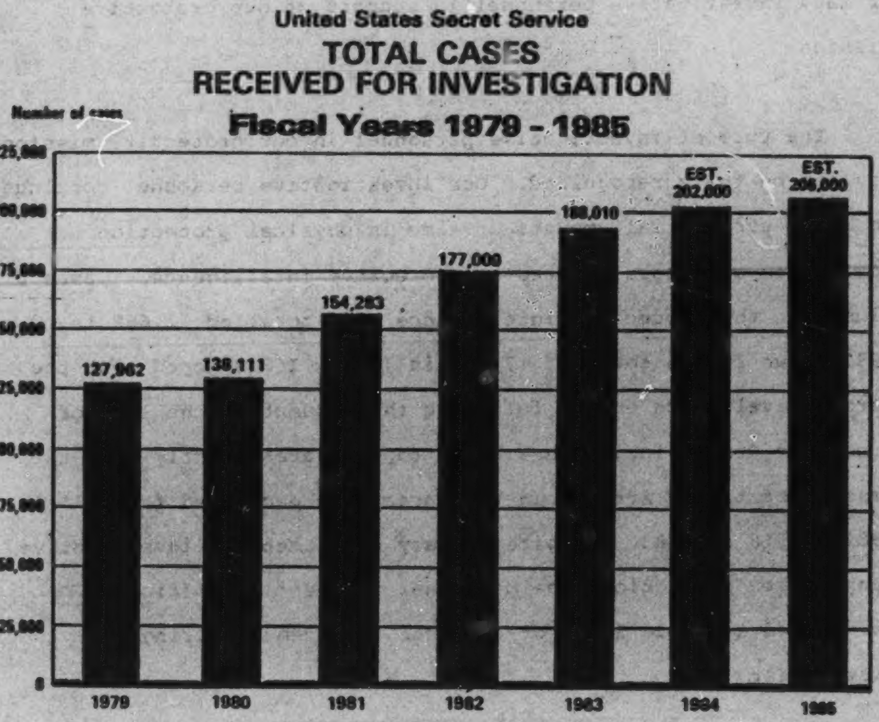
The role of investigative personnel in our protective mission may not be fully recognized. Our investigative personnel continue to spend substantial amounts of time in physical protection activities and those related to protective intelligence. Cases closed in the protective intelligence area totalled 12,658 in 1983, down from a total of 17,354 in 1982. It is hoped that the threat level which ensued following the attempt on the life of President Reagan in 1981 has begun to mitigate slightly with the passage of time. Arrests in this area also decreased from 771 in 1982 to 516 in 1983. Despite a heavy commitment of investigative manpower to protection, the personnel in the field offices maintained a viable level of criminal enforcement during Fiscal Year 1983.

Overall Investigative Caseload

Our criminal investigative caseload continued to increase during Fiscal Year 1983. The 188,000 cases received for investigation represents a 6 percent increase over the 177,000 cases received in Fiscal Year 1982. Total figures for Fiscal Year

1983 show a total of 199,000 cases closed, an increase of 27 percent over the Fiscal Year 1982 level, and 8,700 arrests. The conviction rate for all arrests that went to trial during Fiscal Year 1983 was 99.2 percent, and marked the sixth consecutive year that the conviction rate has reached or exceeded 99.0 percent. The chart on the next page shows the total cases received for investigation over the past five years, as well as the most recent estimates of the number to be received in Fiscal Years 1984 and 1985 (Chart A).

Chart A



Counterfeiting Activities

During Fiscal Year 1983, $71.8 million in counterfeit currency was recovered by the U. S. Secret Service. This represents a 13 percent decrease from the amount recovered in our banner year, Fiscal Year 1982. Of this amount, $64.0 million or eighty-nine percent was seized before it could be passed on the American public. The FY 1983 total represents the second largest dollar value of counterfeit currency ever seized by the Service and the record year for the total number of notes seized prior to distribution. We are particularly proud of this figure since it came about in spite of the demands placed on investigative personnel to augment protective activities.

A total of $7.8 million or 11 percent of the counterfeit currency recovered was passed on the American public reflecting a 9 percent decrease in the dollar amount passed over the previous fiscal year.

During Fiscal Year 1983, the number of counterfeit $100 Federal Reserve Notes passed on the American public increased by 16 percent over Fiscal Year 1982. At the same time, the counterfeit $50 Federal Reserve Notes saw a decrease of 34 percent, while counterfeit $20 Federal Reserve Notes decreased by 26 percent.

During the past fiscal year, 115 counterfeit note plant operations were suppressed compared to 86 in Fiscal Year 1982 and 83 in Fiscal Year 1981. Since Fiscal Year 1981, plant suppressions have increased a full thirty-eight (38%) percent.

Of the $7.8 million passed on the American public, approximately 14 percent of the notes were traccable to origins in Colombia, South America; nearly $1.1 million dollars of counterfeit notes of Colombian origin were passed on the American public. This amount compared to the $1.5 million dollars of Colombian origin counterfeit losses to the public during Fiscal Year 1982 represents a 26 percent decrease in Colombian origin losses.

Also with regard to foreign-origin counterfeit, a task force of agents, assigned on a 30 day rotating temporary basis, was established in Milan, Italy, to work in conjunction with Italian authorities to combat the counterfeiting of U. S. currency. Italian originated counterfeit currency has been prevalent over the past few years and we have experienced these notes being passed domestically. Since implementation of the task force in July 1982, approximately three million dollars in counterfeit currency has been seized prior to distribution and 60 individuals arrested. The success of the task force in suppressing counterfeiting is an encouraging sign that we have invaluable cooperation from other countries in preserving the integrity of our national currency.

The following charts show for Fiscal Years 1979 through 1983 the dollar value of counterfeit notes seized before circulation, with the overall losses to the public and for Fiscal Year 1979 through 1983 the number and dollar value of the counterfeit notes passed (Charts B and C).

Check Forgery

Forgery of Government checks continues to be a significant area of enforcement activity for the Secret Service. During Fiscal Year 1983, approximately 110,000 check cases were received for investigation, an increase of 9,000 cases over Fiscal Year 1982. During the past fiscal year, the Secret Service made 4,771 arrests in check forgery cases, a 3 percent increase over the Fiscal Year 1982 level of 4,652 arrests.

Included among the check forgery investigations were 77,576 check referrals from the Division of Check Claims (DCC). Each check was analyzed in terms of handwriting and endorsements, and

Chart B

United States Secret Service
COUNTERFEITING ACTIVITY
Fiscal Years 1979 - 1983

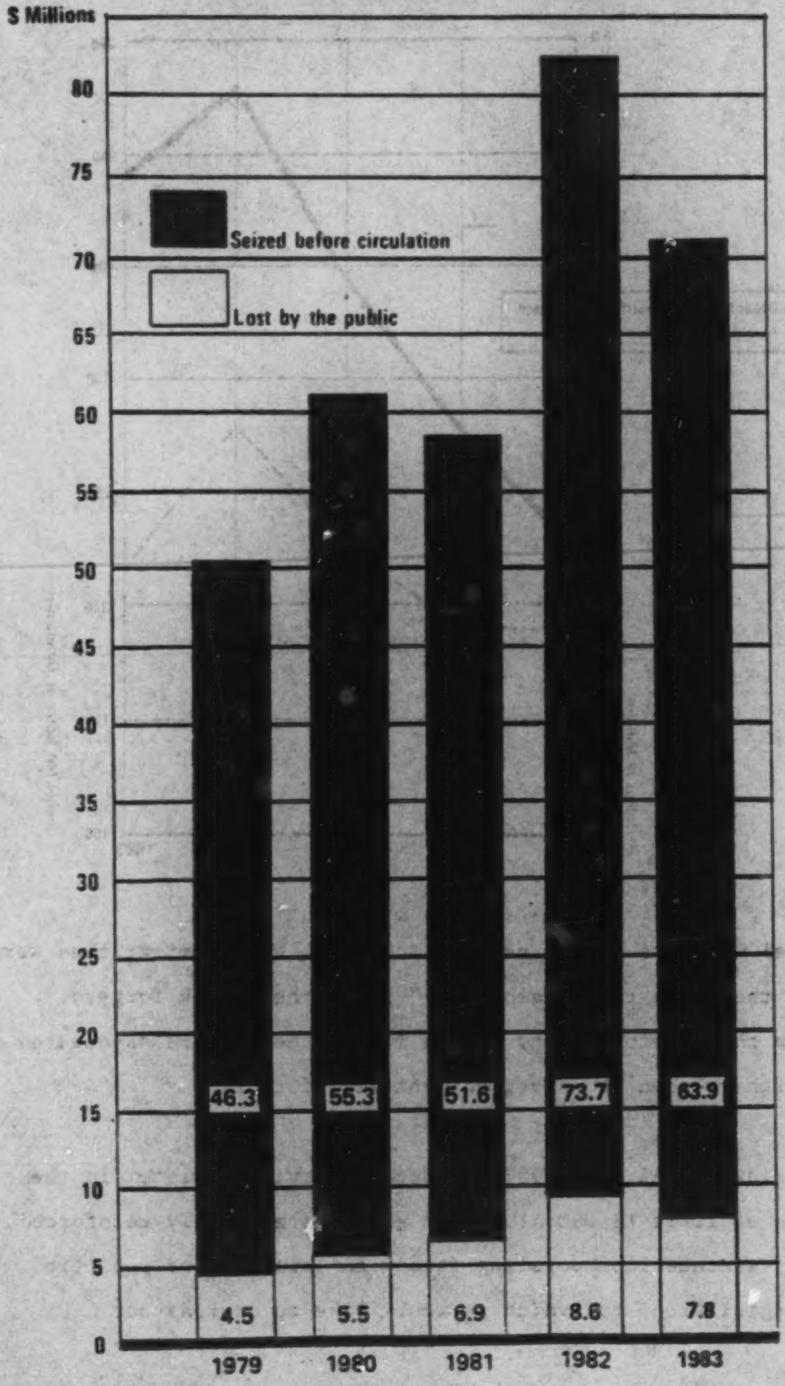
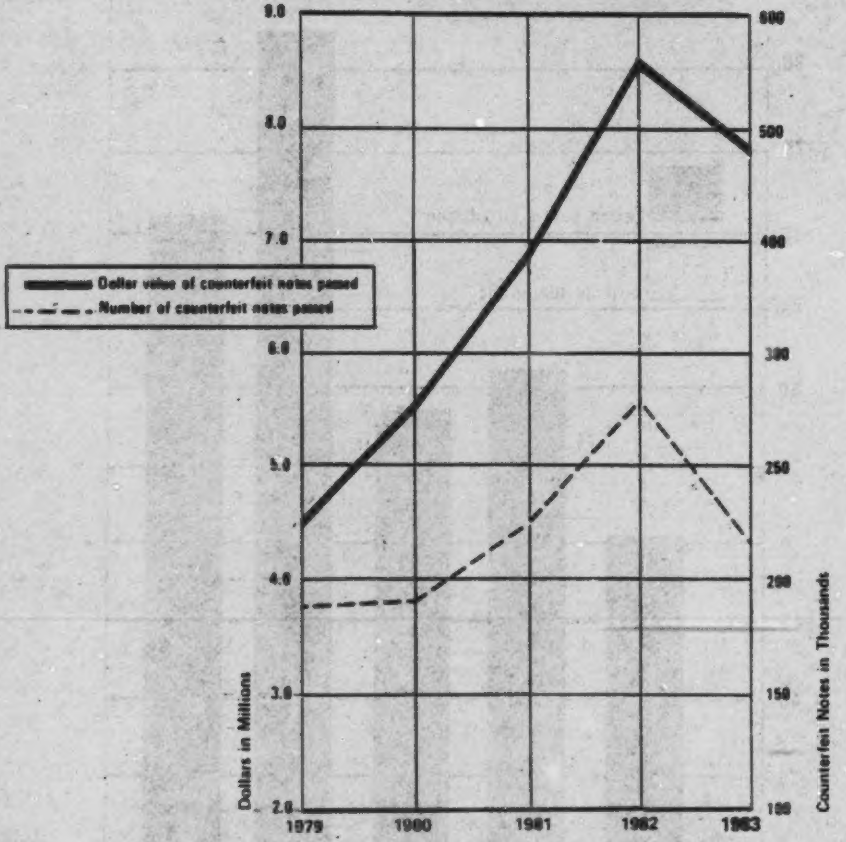


Chart C

United States Secret Service

COUNTERFEITING TRENDS

Fiscal Years 1979 - 1983



compared with previously received checks. When similarities were noted, they were then "associated" with other check forgers. Through these efforts many of the forged checks were associated with either known or as yet unidentified forgers.

During Fiscal Year 1983 the Secret Service assisted in the passage of Title 18 USC 510 which gives us a greatly reinforced forgery statute incorporating felony and misdemeanor penalties. This legislation, for which we would like to express our satisfaction to members of Congress, will close loopholes existing previously in criminal prosecution.

A new case management policy for check forgery cases was implemented on October 1, 1982, and has been very effective in maximizing the use of investigative resources. This policy can be directly linked to a 3% increase in forgery arrests, a 60% increase in cases completed and a 23% increase in cases solved.

A law enforcement tool that the Secret Service has utilized to great advantage in the last few years is the "sting operation." During this past year we worked closely with local and Federal law enforcement agencies to conduct several of these. One conducted in San Francisco reduced mail truck robberies from two to four each month to two robberies in the last six months. This is a proactive technique for preventing the theft of Government checks and bonds forwarded by mail to recipients, thereby reducing the number of checks and bonds that would otherwise come to us as investigative referrals later. We hope to continue to enjoy the benefits of the "sting operation" in this and future years.

The following chart reflects the number of check cases received for investigation for Fiscal Years 1979 through 1983 with estimated numbers to be received in Fiscal Years 1984 and 1985 (Chart D).

Bond Forgery

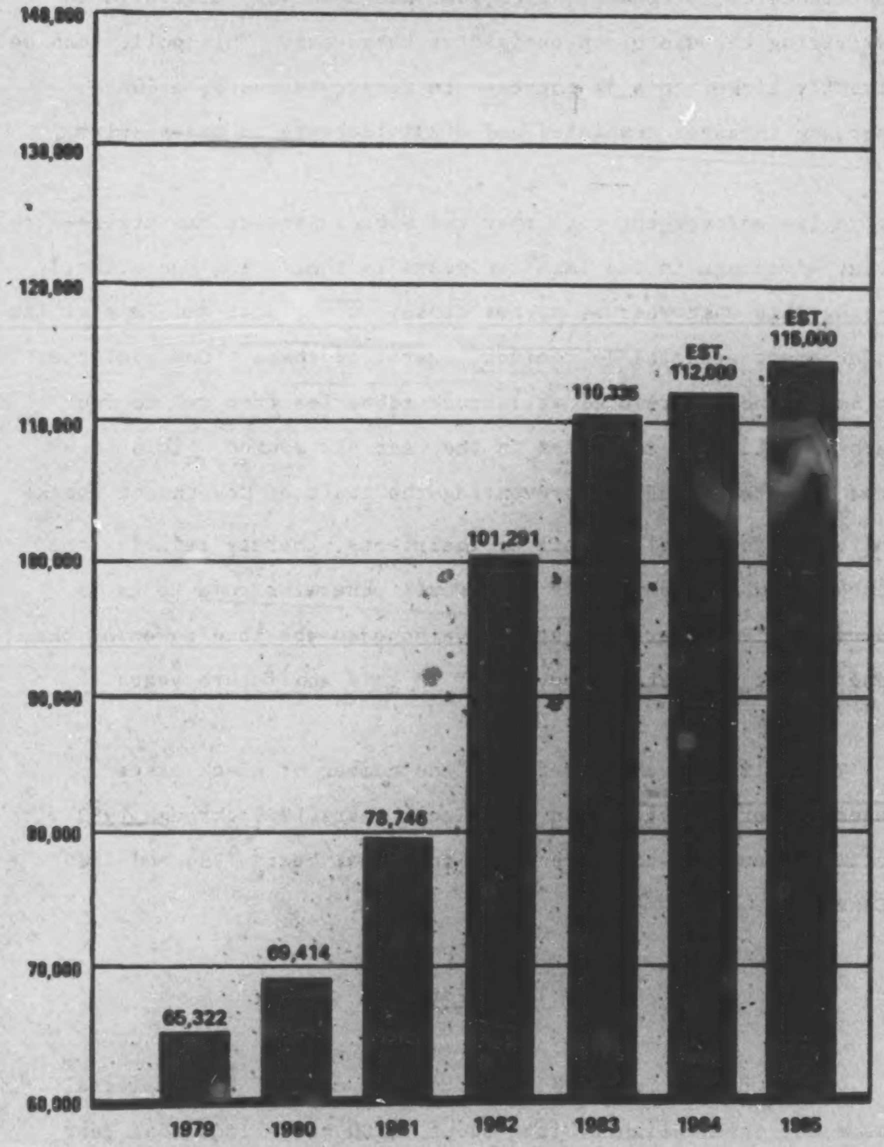
During Fiscal Year 1983, the total number of bond referral cases increased slightly from about 9,700 cases in Fiscal Year 1982 to 10,000 cases in Fiscal Year 1983. More stolen bonds are being recoverd before they are forged, thereby reducing the number of bonds which appear as forgery referrals at a later date.

Chart D

United States Secret Service

NUMBER OF FORGED CHECK CASES RECEIVED FOR INVESTIGATION

Fiscal Years 1979 - 1985



Arrests for the same period decreased from 122 during Fiscal Year 1982 to a total of 95 during Fiscal Year 1983.

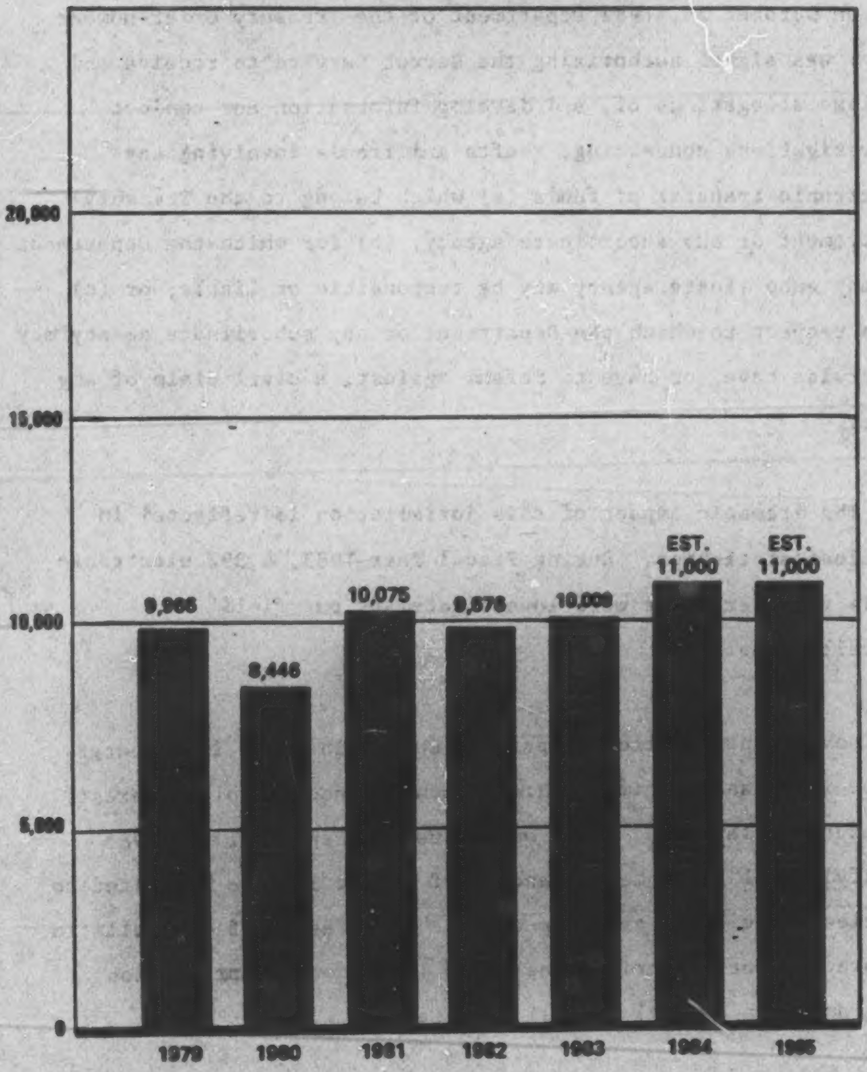
The following chart shows the number of bond forgery cases received for investigation during Fiscal Years 1979 through 1983 with the estimated number of cases for Fiscal Years 1984 and 1985 (Chart E).

Chart E

United States Secret Service

NUMBER OF FORGED BOND CASES RECEIVED FOR INVESTIGATION

Fiscal Years 1979 - 1985



Fraud

In January of 1982, a Department of Justice Task Force on Food Coupon Fraud was created to deter major traffickers in U. S. Department of Agriculture (USDA) Food Coupons. During 1983, twenty food coupon fraud "sting operations" were conducted by Secret Service field offices. Approximately 500 arrests ensued from these investigations.

On October 26, 1982 Department of the Treasury Order number 170-1 was signed authorizing the Secret Service to receive and analyze allegations of, and develop information and conduct investigations concerning, thefts and frauds involving any electronic transfer of funds (a) which belong to the Treasury Department or any subordinate agency; (b) for which the Department or any subordinate agency may be responsible or liable; or (c) with respect to which the Department or any subordinate agency may otherwise have, or have to defend against, a civil claim of any type.

The dramatic impact of this jurisdiction is reflected in caseload statistics. During Fiscal Year 1983, 4,392 electronic funds transfer cases were investigated by our field installations.

Government, public and private sector interest in computer crime is at an all time high. In consequence of this interest, Treasury Bulletin No. 83-84 was issued on September 23, 1983 notifying all government agencies of Secret Service jurisdiction in electronic funds transfer cases. As a result of the bulletin, we are presently coordinating fraud detection and prevention programs with several Federal agencies.

To meet the demand of computer crime investigations, we have established two headquarters computer crime teams available for specialized assistance and support for the field offices.

This year and in the future, the Secret Service would like to continue the trend of balancing investigative jurisdiction with an escalating protective responsibility. Our most effective protective agents are those with "street sense" gained from investigative operations. Their instinct and intuition about people and circumstances is sensitized, contributing significantly to their ability to effect a secure environment for protectees. By the same token, investigative assignments allow road-weary agents to remain in-district, rotating out of the extraordinary demands of protection related duties. We are gradually regaining a healthy balance between two demanding missions and it is a trend that will benefit us and the public.

Organized Crime

The Secret Service continues to participate in the Organized Crime Strike Force Program of the Department of Justice. The Secret Service is an active member of the National Organized Crime Planning Council, which consists of members of Federal law enforcement agencies. The council visits the several strike forces throughout the country and gathers information concerning organized crime interests. At present, the Secret Service has designated 14 Organized Crime Strike Force representatives in our field offices who coordinate their efforts with the national representative assigned to headquarters.

Visits by the council to the Strike Force Districts have renewed enthusiasm and interest in the program. Our strike force representatives report that inter-agency cooperation has improved and, as a result, information that otherwise would not have been received has become available, proving beneficial to our investigative activities.

Equal Employment Opportunity

The Service has continued to pursue a vigorous program for the recruitment of qualified minority employees, as well as a program to prepare minority clerical employees for advancement into administrative and technical positions. As you know, the Service has a special need for minorities in the ranks of our Special Agents and uniformed officers. Accordingly, we have conducted significant recruitment efforts for these categories of personnel so that we can compete with private industry for qualified minorities.

Extensive efforts were made during Fiscal Year 1983 in cities where we could gain access to designated minority groups. So far we have gained over 500 applications from these recruitment groups and intend to continue in this vitally important endeavor.

Freedom of Information and Privacy Acts

During Fiscal Year 1983, the Service processed 592 FOI requests and 143 Privacy Act requests. Additionally, our Legal Counsel processed 59 FOI administrative appeals and actively assisted in the litigation of 17 judicial appeals.

I would like to point out at this time since the passage of the Freedom of Information and Privacy Acts in 1974, the Service has spent from $300,000 to well in excess of $400,000 each year in responding to the numerous requests. Of this amount, less than one-half of one percent is potentially recoverable through FOI/Privacy Act billings. Moreover, less than twenty-five percent of this fraction is actually ever received from the individuals involved.

As a result, since 1975, the Service has continually written off uncollectable receivables and continues to bear the financial burden of these acts exclusively.

Protective Research

During the past fiscal year the Service has made deliberate efforts to improve methods for determining the potential danger of persons who make threats or who exhibit an unusual interest in persons whom we are authorized to protect. Our efforts in this area became all the more important in the aftermath of the attempted assassination of President Reagan in March 1981. In the months following the attempt on President Reagan, the Service saw the most significant increase in intelligence cases in our history.

In early March 1981, the Secret Service and the National Academy of Sciences (NAS) held a workshop on behavioral research in an effort to learn more about those who make threats to our protectees. The purpose of the workshop was to examine the "problems in assessing and managing dangerous behavior" and to present recommendations and suggestions to the Service. Conferees of that workshop unanimously agreed that an external research advisory board should be created to oversee the development of a behavioral research capacity within the Secret Service. This external assistance would be a body of distinguished behavioral scientists, research psychologists and other professionals including official clinical practitioners who would be available to help determine research priorities and assist us in framing a coherent and fully integrated approach to the problem of "dangerous behavior" assessment. This need was reinforced by recommendations included in Treasury Department General Counsel's management review of our procedures following the March 1981 attempt.

In May 1982, the Secret Service entered into a contract with the National Academy of Science, Institute of Medicine (IOM) for a 20 month study to review the recommendations previously mentioned, regarding research and training for the assessment and management of dangerous behavior. This contract led to the establishment of a committee consisting of ten members, many of whom participated in the original workshop. The work of the IOM is near completion and a final report is expected during January, 1984.

In another area of protective research, the Service, like other enforcement bodies, relies heavily on the public and other organizations for its intelligence data. We continue to feel the impact of the FOI and Privacy Acts. As a result, greater amounts of resources must be expended to ensure adequate security for protective functions.

Training

The accomplishments of our training segment were remarkable during FY 1983. In preparation for the rigors of a Campaign/Summer Olympic year, training was conducted and paced so that maximum efficiency and effectiveness of our personnel and those borrowed from our sister Treasury bureaus could be realized. Several candidate details, including supervisors, operations personnel, and shift agents, have been trained in preparation.

In addition, over 850 agents from other Treasury enforcement bureaus nationwide have been prepared to assist us.

Further, military personnel and local police officers from the Convention cities, Dallas and San Francisco, and from the Olympic City of Los Angeles have been briefed to insure maximum co-operation. Over 2100 other Federal, state and local police officers and 196 command level law enforcement officials were trained in protective techniques.

James J. Rowley Secret Service Training Center

Continued development of the James J. Rowley training facility remains a top priority in terms of the Service's desire to counter threats to our investigative and protective missions with the most current training techniques.

We expect to be approximately halfway through our development effort by the end of this fiscal year. Proposed revisions for future development of the Rowley Training Center which reflect changes in our protective training techniques have been submitted to the Treasury Department. As soon as Department approval is received, we are ready to proceed with the continued development of this facility. Our FY 1985 budget request does not contain any funding for further development.

Summary

In summary, Mr. Chairman, the Secret Service continues to experience one of the most demanding periods in its history. The workload of the Service continued to expand and take on new dimensions this past year. The budget year we are now discussing will witness a continued increase in our efforts including the conclusion of the 1984 Presidential Campaign and the increased protective requirements associated with a post-Campaign year.

The budget request before you is designed to permit the Service to carry out its ongoing and new responsibilities. To quote Coach Lombardi one last time, "(T)he objective is to win - fairly, squarely, decently, by the rules - but to win." In this regard I am grateful to this Committee for the understanding and support which you have given us over the years, helping us to win in our competition against crime. We look forward to continuing our work with you.

Mr. Chairman, this concludes my statement. I will be pleased to answer any questions you or the other members of the Committee may have.

BUDGET REQUEST

Senator ABDNOR. So we will just turn it over to you, Mr. Simpson.

Mr. SIMPSON. Thank you, Mr. Chairman.

Mr. Walker said I could ask you for any amount of money I wanted.

Senator ABDNOR. He suddenly canceled his trip. [Laughter.]

DIRECTOR SIMPSON'S SUMMARY INTRODUCTORY STATEMENT

Mr. SIMPSON. Thank you, Mr. Chairman.

It is always a pleasure to appear before you and this committee. We are here to present our annual appropriation request of the U.S. Secret Service and to report on our activities during the current and past fiscal years.

With your permission, I would like to read a short introductory statement and submit my full statement for the record.

Senator ABDNOR. That will be fine. Your written statements will be made a part of the record.

INTRODUCTION OF ASSOCIATES

Mr. SIMPSON. With me today, Mr. Chairman, is the Deputy Director, Mr. William R. Barton; Mr. Larry B. Sheafe, Assistant Director for Investigations; Mr. Edward J. Pollard, Assistant Director for Protective Operations; Mr. Jerry Parr, Assistant Director for Protective Research; Mr. Stephen E. Garmon, Assistant Director for Administration; Mr. Joseph R. Carlon, Deputy Assistant Director for Investigations; Mr. John L. Armstrong, Deputy Assistant Director for Administration; and Mr. Frank Palmer, Chief of our Financial Management Division.

Mr. Chairman, if you would give us $1 million for each of the names and all we just mentioned, we would be very satisfied and leave right now.

Senator ABDNOR. I do not know. I would have to study that.

Mr. SIMPSON. Since this is the first appearance before this committee of Mr. Garmon and Mr. Armstrong from our Office of Administration, I have included a short biographical sketch of each in my full introductory statement.

APPROPRIATION REQUEST

The appropriation request for fiscal year 1985 totals $275,731,000, a reduction of $21,998,000 from the proposed authorized level for fiscal year 1984.

Mr. Chairman, before going on to tell you what we have been doing this past year, I would like to share with you a few of my thoughts as I prepared for this briefing and as I look forward to the demanding campaign facing all of us this year.

In justifying our pending appropriation request with you today, we are talking about competition; competition for scarce Federal resources necessary for effective ongoing operations. If you will afford me a few minutes, I would like to speak about another kind of competition. The men and women of the Secret Service are engaged in a competition every day; competing with those individuals who would do harm to our protectees, or those who seek to undermine the economic well-being of our country through abuse of our currency and securities.

There is a saying among sportsmen that "it's not whether you win or lose, but how you play the game." This is a fine philosophy for people engaged in recreational competition. But my feelings in directing the Secret Service have been summarized best in the words of one of the all-time great football coaches, Vince Lombardi: "There is no room for second place. There is only one place in my game, and that is first place."

Coach Lombardi has identified the blood and guts of all competition—winning, whether it is in athletic games or fighting crime. And if you look at the mission of the Secret Service in terms of competition, you will find a deadly game, where the risks are high and the stakes even higher.

We are competing with those who threaten the lives of our Nation's leaders and those who threaten the economic well-being of our Nation's economy. As the oldest Federal law enforcement body, we take great pride in our efforts to insure safety for our protectees and in our efforts to deter counterfeiting, forgery and fraud of currency and securities.

Our success rests heavily on our ability to attract and recruit the best and the brightest men and women dedicated to our mission and its success. Demands placed on our employees defy normal standards with long periods of travel, 12-hour shifts or longer, while living out of a suitcase, and then returning to a backlogged caseload at the home office.

Under the circumstances, you might wonder how we are able to continue to recruit the best and maintain an attrition rate of less than 4 percent. Maybe Mr. Lombardi had the answer here, too, when he said, "It's a reality of life that men are competitive and the most competitive games draw the most competitive men. That's why they're there—to compete. They know the rules and the objectives when they get in the game."

I am proud to say that no challenge seems too great for these men and women and their enthusiasm and dedication go unsurpassed. It seems only appropriate then that I make every effort to provide them with the resources needed to get the job done. That is why I and my colleagues are here, to ask that you continue to support our team so that we can continue to win.

It is appropriate to summarize our mission objective once more in the words of Coach Lombardi, "Winning is not a sometime thing; it's an all-the-time thing. You don't win once in a while, you don't do things right once in a while, you do them right all the time."

I hope you feel the same way about our mission and continue to support us as you have in the past. Now I would like to tell you about some of our accomplishments this past year.

CONTINUED INCREASE IN ACTIVITIES

The past year has shown a continuing increase in the activities of the Secret Service. During fiscal year 1983 we provided security to permanent protectees traveling extensively throughout the United States and abroad and to foreign leaders visiting the United States. At the same time, the problems of worldwide terrorism required extxaordinary measures with respect to the protection of not only our permanent protectees but foreign missions as well.

Investigative responsibilities of the Secret Service continued to escalate following receipt of primary jurisdiction for investigating cases of electronic fund transfer fraud involving Treasury funds, in addition to our other criminal jurisdiction.

PROTECTIVE EFFORTS

Our protective mission continues to receive our highest priority. In this regard, we are continuously evaluating new equipment and methods to assist us in providing a safe and secure environment to those persons whom we protect.

During fiscal year 1983, we provided protection to our permanent protectees who, in addition to their rigorous daily schedules, visited over 1,300 cities domestically and 116 foreign cities.

FOREIGN DIGNITARY PROTECTION

Protection associated with visiting foreign dignitaries also continued at a high level. Our 1983 protective efforts were highlighted by the successful conclusion of major activities attended by world leaders, including the economic summit of industrialized nations held in Williamsburg, Va., in May 1983; the 38th meeting of the U.N. General Assembly, and one of our largest foreign dignitary efforts, the visit of Queen Elizabeth II.

Last year, 149 foreign dignitaries were afforded Secret Service protection, each visiting an average of 5 days during fiscal year 1983. These numbers compare to protection provided for 128 visiting dignitaries who stayed an average of 4.9 days each during fiscal year 1982.

Nearly 90 percent of last year's foreign dignitary protection was provided by special agents assigned to field offices. In fact, over 48 percent of all protection-related activities were accomplished by agents assigned to the field.

This fiscal year the Service is dedicating a major portion of its resources toward candidate and nominee protection. What is more, this campaign year will grow even more demanding. We are going to have the summer Olympics in Los Angeles in July right at the peak of campaign activity. About 30 protectees are expected to attend some portion of the games.

INVESTIGATIVE CASELOAD

Despite the heavy commitment of special agents to protective responsibilities, our field staff concluded another successful year. Total figures for fiscal year 1983 show a total of 199,000 cases closed, an increase of 27 percent over the number of cases closed during fiscal year 1982, and 8,700 arrests. The conviction rate for all arrests that went to trial last year was 99.2 percent, marking the sixth consecutive year that the conviction rate has reached or exceeded 99 percent.

During fiscal year 1983, special agents recovered $71.8 million in counterfeit currency, including the largest total number of counterfeit notes recovered in Service history. Of the amount recovered, a total of $64 million was seized before it could be passed on the public. As you can see from these numbers, without vigorous enforcement, losses to the public could amount to tens of millions of dollars, thereby destroying public confidence in national currency.

SUMMARY

In summary, Mr. Chairman, fiscal year 1983 was a demanding year for the Secret Service, and our outlook for fiscal year 1984 is a sober one as I am sure you can appreciate.

The budget request before you is designed to permit the Service to carry on its ongoing and new responsibilities. To quote Coach Lombardi one last time, "The objective is to win—fairly, squarely, decently, by the rules—but to win." In this regard I am grateful to the committee for the understanding and support which you have given us over the years, helping us to win in our competition against crime. We look forward to continuing our work with you.

Mr. Chairman, this concludes my statement. I will be pleased to answer any questions you or the other members of the committee may have.

STAFFING LEVEL

Senator ABDNOR. Well, I want to thank you for that excellent statement, Mr. Simpson. I assure you we have great confidence in your organization and are very proud of the work they do. I sometimes wonder how you cover all the areas you do cover. I think that has been some of the concern, not only in your case but in other enforcement agencies we work with in this subcommittee.

Now, in 1984, the fiscal year 1984 appropriation, continuing resolution included an additional 225 special agents, 49 uniformed division, and 100 support positions for the Secret Service. Just what progress is being made in bringing these people on board? And do these additional positions bring your staffing up to an adequate level?

Mr. SIMPSON. Mr. Chairman, we have not been able to hire those special agents and support personnel that you and the other members of the committee allowed us to have in the fiscal year 1984 continuing resolution. We are short 275 people, the 175 special agents, and 100 in the support area.

Senator ABDNOR. You are not only short 50 from the ones we asked you to hire, you are down 200?

Mr. SIMPSON. Two hundred and seventy-five all totaled.

What has happened is that while the fiscal year 1984 continuing resolution allowed us to hire up to 4,375 positions in total, unfortunately the 1985 budget that was put together by OMB and Treasury did not provide us with the money nor provide the employment authorization to keep the people in fiscal year 1985. So it would be rather an exercise in futility to hire the individuals and then have to let them go in the following year.

Senator ABDNOR. Yes; so there is nothing in this budget either that is going to allow that.

Mr. SIMPSON. No, sir.

Senator ABDNOR. How much of a shortfall in your necessary personnel do you see? How do you make up the slack?

Mr. SIMPSON. We have a need for the positions that were authorized in the fiscal year 1984 continuing resolution. The only alternative is make it up through overtime and you work the people harder and harder.

Fortunately in our case we have people with an esprit de corps who are willing to take on the extra hours that are needed to perform the duties assigned.

MANPOWER REQUIREMENT AT OLYMPICS

Senator ABDNOR. Now, this year, the one we are in, we have not started the Olympics yet; how much manpower are you going to move out there?

Mr. SIMPSON. Well, sir, we testified last Friday in Los Angeles at a hearing attended by Senator DeConcini. He asked a question very similar to yours. We told him at that time that we are planning for 30 dignitaries for whom we would be required to provide protection. It could be 15, it could be 30, it could be more.

Senator ABDNOR. You have no idea?

Mr. SIMPSON. At this point we do not, sir. We have asked the State Department to request our ambassadors go to the host governments and try to determine the number of dignitaries planning to visit the games who will require protection by the Secret Service or another agency. Hopefully they will come back with some indication as to numbers in the very near future.

Senator ABDNOR. Do these countries give you courtesy of a little advance notice, or do they just drop in?

Mr. SIMPSON. Some do and some do not.

OLYMPIC PARTICIPATION

Senator ABDNOR. I would imagine the numbers could be even more out there.

How many countries do we have in the Olympics participating?

Mr. SIMPSON. I do not think they have a total number at this point. For instance, the Russians just accepted their invitation. Other nations are back and forth. I do not think they have a true count at this point.

POSITION REDUCTION

Senator ABDNOR. Another subject on the same area, what type of positions are involved in the reduction of 4,375 permanent positions in fiscal year 1984 to 4,100 permanent positions in fiscal year 1985? Who is involved in that reduction?

Mr. SIMPSON. We were not able to hire up to the 4,375 level, sir, because, as I mentioned, it would be an exercise in futility to bring the people on and then let them go. So we are forced to level off at close to 4,100. The positions involved in the reduction are 175 agents and 100 support people.

Senator ABDNOR. I guess that is what we put in last year.

Mr. SIMPSON. Yes, sir, it certainly was.

Senator ABDNOR. You are telling us you did not need the positions we thought you needed and still do, I think.

Mr. SIMPSON. I did not tell you that, sir. We still need the additional positions which were authorized in fiscal year 1984.

Senator ABDNOR. No, no, you do not have to be a good mathematician to come out with these numbers.

It appears that the Service is diverting resources from its check cases to major fraud investigations. This being the case, why are you not requesting additional special agents and related support for your investigative program in fiscal year 1985? Because you do not have them.

Mr. SIMPSON. As we discussed last year when you and other members of the committee were so gracious as to allow us 4,375 positions, we stated at that time that we would not come in for additional personnel until we were able to get these new recruits on board, trained, and assigned. At that time we would be in a better position to see what additional people we would need if, in fact, we would need anybody.

At this point in time, what we have done and what we would do with the additional personnel if we were allowed to have them is to prioritize responsibilities and assign personnel in that manner. We feel at the present time that electronic funds transfer and credit/debit card investigations are the wave of the future. We feel that in the best interest of the taxpayers' money, it would be best for us to assume those types of investigations. As you know, Government check cases that we investigate are beginning to be phased out.

Senator ABDNOR. Yes.

TOWARD A CASHLESS SOCIETY

Mr. SIMPSON. There is some reasonable expectation that by the year 2000 it will be a cashless society, with EFT and debit and credit cards being the way we do our transactions.

I have been told by the industry that at the present time only 2 percent of all financial transactions are done by cash. I am not an expert in the area, so I do not know. But my suspicion is that whether it is by the year 2000 or not, that we are moving toward a cashless society. We are trying to get ahead of it and be prepared to give the taxpayer protection for electronic and credit/debit card transaction.

POSITION FINANCING

Senator ABDNOR. How much are we talking about in dollars to bring us up to the 175 we thought we were going to have at one time and do not.

Mr. SIMPSON. What we are talking about, Mr. Chairman, is 275 positions and $14 million.

JAMES J. ROWLEY TRAINING CENTER

Senator ABDNOR. This committee has been informed by the Secretary of the Treasury that the Treasury Department has no objection to the continued development of the James J. Rowley Training Center. Secretary Regan indicated in his letter that he was awaiting updated plans for further development of the Training Center. What I would like to know at this time is, what is the status of your master plan for the Beltsville facility?

Mr. SIMPSON. We are in the process of finishing up phase two as soon as the weather allows us to, Mr. Chairman, and we have recently been given permission by the Secretary to prepare the plans, the engineering designs, for the continued development of the training facility.

We are now in the process of putting the engineering designs out for bid and we hope within the next 5 to 8 months to have a master plan that we can present to the Secretary for his approval. There will not be a phase three or four; it will be a culmination plan of our approach to Beltsville.

Senator ABDNOR. Well, in last year's hearings you told this committee how vital it was to your protective effort that continued development of your training facility remain a top priority. Last year we agreed with you and provided funding toward the continued development of this project. Have you changed your mind or is there some other reason why no followup funding is being requested for fiscal year 1985?

Mr. SIMPSON. There was money in the budget, sir. It did not quite make it all the way to your committee.

Senator ABDNOR. It was there at one time?

Mr. SIMPSON. Yes.

Senator ABDNOR. Is it realistic to assume that if this committee would provide the funding, that the developments at the Training Center would be completed within the next 2 years?

Mr. SIMPSON. Yes, sir. Weather permitting.

INTERNATIONAL TERRORISM

Senator ABDNOR. Has the Secret Service managed to stay abreast of the state of the art in the technology needed to counter the threat of international terrorism?

Mr. SIMPSON. Thanks to you, Mr. Chairman, and the other members of the committee, for allowing us a little latitude in last year's budget. We have been able, I think, at this point in time, to remain equal to advancing technology.

We need your continued support obviously to make sure we continue to remain abreast of the state of the art because this affords us the best chance of defeating terrorist activity.

Senator ABDNOR. It is on the increase, there is no doubt?

Mr. SIMPSON. Well, if it is not by numerical numbers, it certainly is by the amount of drama that is attached to it. I think the explosion at the Marine barracks in Beirut got the world's attention, and that is what terrorism is about, to get the world's attention to whatever the terrorist cause may be.

REIMBURSEMENT OF STATE AND LOCAL GOVERNMENTS

Senator ABDNOR. That is right.

Why is there such a large decrease in the object class other services from $33,600,000 in fiscal year 1984 to $17,594,000 in fiscal year 1985? That is not quite 50 percent, but it is awfully close.

Mr. SIMPSON. We hope, Mr. Chairman, we will transfer to the State Department the New York reimbursement. We have somewhere in the vicinity of $16 million in accrued amounts in that particular account, the transfer will reduce our other services account by that much. Hopefully that will take place in the not too distant future.

Senator ABDNOR. That is good.

Mr. SIMPSON. I agree with you, Mr. Chairman.

Senator ABDNOR. What is the rationale for transferring the reimbursements to State and local governments account to the State Department?

Mr. SIMPSON. We probably, out of every $10, Mr. Chairman——

Senator ABDNOR. Wait a minute.

Mr. SIMPSON. Out of every $10 that goes to the city of New York for reimbursement, we probably are responsible for $1 out of the $10. The other $9 is by virtue of responsibilities that are accrued through the State Department's responsibilities; that is, the protection of certain missions in New York City which are there because of the United Nations.

The State Department has any number of protectees that go to New York City on almost a daily basis.

We do not protect the numbers of dignitaries anywhere near what they have. For us to continue to monitor their account is not realistic. We cannot give a true accountability because we just do not have all of the facts and figures.

BALANCING PROTECTIVE AND INVESTIGATIVE RESPONSIBILITIES

Senator ABDNOR. Secret Service has often spoken of balancing protective responsibilities with investigative jurisdictions. What recent efforts have been made to increase your investigative responsibilities?

Mr. SIMPSON. Well, we are hoping to have title 18 United States Code 3056 amended in this Congress, with your help and that of Senator DeConcini and other members of the committee we hope to have 3056 amended to include EFT investigations, computer fraud, and debit and credit card investigations.

We feel it is vital to sustain a balanced approach to our protective and investigative jurisdiction.

We are waiting for some help from the Congress.

Senator ABDNOR. I would hope we can get that moving again.

Mr. SIMPSON. I hope so too, sir.

Senator ABDNOR. The primary mission of the Service is protection. Would not the expansion of criminal jurisdiction take away from the elite nature of your policy role?

Mr. SIMPSON. No, sir. The Secret Service is on record that additional enforcement responsibilities would in no way detract from our ability to protect the President and others as mandated by law. The two mission areas, investigations and protection, are not mutually exclusive. In fact, the extensive experience of the Secret Service in protective matters has shown that the best protective agent is one who has trained and performed as a criminal investigator. The agent's ability to recognize dangerous situations and persons is enhanced as a result of street sense and contact with the criminal element through enforcement activities.

The protective and the criminal responsibilities gives us an opportunity to cross train our people and gives them a better perspective as far as our responsibilities are concerned.

I do not mean that this would apply to any other agency, but it does not apply to the Secret Service.

REDUCTION OF MIDLEVEL GRADES

Senator ABDNOR. I am happy to have your views on that.

The administration is pursuing the GS-11 to GS-15 project to reduce those grades. I do not know how that hits you. We have asked this of most agencies. What impact will that type of reduction have on the Service?

Mr. SIMPSON. It would have a devastating effect on our Service.

I compare it to you and I going to a clothing store; I do not know what your size happens to be, but mine is a 43 long, and you try on the suit that I pick out. It just would not fit.

What they are trying, in my opinion, is to fit that particular situation to every agency.

I am not suggesting that they should not look into it and should not do something about some of the agencies. I am talking about the Secret Service. We have an elite organization, one in which we have worked very hard to maintain our esprit de corps. We are well trained. I think we have the reputation of excellence. And I do not think the Secret Service should be looked at as just any other agency.

I think you have to go out and look at an agency and see if they do or do not deserve to have that kind of application applied.

Senator **Abdnor.** We are very conscious of this. Mr. Stockman was here today and we brought that up.

But you have to look at each agency separately. Each one has to be different.

SUMMARY

Well, that concludes our questions, Mr. Simpson. It is always good to have you and your people before us.

Senator **Abdnor.** I guess I have to short change you a little. I let myself get scheduled downtown for a speech I have to make, so you are lucky we are not going to drill you that much, ask that many questions. But unfortunately, because of this, we had to drop the Customs Service today. We had scheduled them for their testimony. We want to do a good job and let them have the time when they come before us, so we will postpone their appearance until another day. I hope they understand.

SUBCOMMITTEE RECESS

This concludes our hearings. I want to thank all of you for appearing and our next hearing will be next Wednesday on the 28th. We will have Postmaster William Bolger come before us at that time and talk about the revenue foregone. That particular issue makes it doubly tough to deal with all the agencies. That seems to be a very popular one that also falls short of quite a few dollars they need, and they have quite a bit of support around Congress. So we are going to have our problems trying to find the dollars to do everything we want to do.

If there is no further business to come before the subcommittee, we will be in recess until Wednesday, March 28, at 2 o'clock.

We stand in recess.

[Whereupon, at 4:17 p.m., Wednesday, March 21, the subcommittee was recessed, to reconvene at 2 p.m., Wednesday, March 28.]

TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 1985

WEDNESDAY, MARCH 28, 1984

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 2:19 p.m., in room SD-138, Dirksen Senate Office Building, Hon. James Abdnor (chairman) presiding.

Present: Senator Abdnor.

U.S. POSTAL SERVICE

STATEMENT OF HON. WILLIAM F. BOLGER, U.S. POSTMASTER GENERAL

ACCOMPANIED BY:
- HAROLD HUGHES, DEPUTY GENERAL COUNSEL
- MICHAEL COUGHLIN, SENIOR ASSISTANT POSTMASTER GENERAL, FINANCE

OPENING STATEMENT

Senator ABDNOR. The subcommittee will come to order.

Today, we are continuing our fiscal year 1985 budget hearings, and we are pleased to have with us the Postmaster General of the United States, Mr. William Bolger, who is going to discuss the U.S. Postal Service submission for the coming fiscal year.

I need not tell you that we always enjoy having you, Mr. Bolger, and I am sorry to keep you waiting.

Before we start, I would like to point out once again that this subcommittee is going to have to make some difficult choices. The request for the revenue forgone subsidy totals $452 million. Of that total, $52 million is a readjustment. Fiscal year 1984 has an appropriation of $879 million.

We all know that keeping rates at the current level will require a considerable increase in the account. We have long felt rate stability is important to those who receive the subsidy. However, unless the Budget Committee provides a large enough allocation, other accounts in the bill will suffer.

All I can say is that most of them already have been suffering, and to take that much of a bite out is impossible. So we hope that someone on the Budget Committee or somewhere figures out a way—if they want to continue the subsidy, we are all for it, but the dollars have to come from somewhere.

With that, I just want to say, Mr. Bolger, that we are happy to have you. Please go right ahead.

Mr. BOLGER. Thank you.

INTRODUCTION OF ASSOCIATES

I am accompanied today by Mr. Michael Coughlin, Senior Assistant Postmaster General for Finance, and Mr. Harold Hughes, the Deputy General Counsel of the Postal Service. We are pleased to be here.

Mr. Chairman, I will read this into the record.

For fiscal year 1985, the President has requested a total appropriation to the Postal Service of $691.5 million. This is a reduction of $187.5 million from the amount to be provided for fiscal year 1984 under last year's November continuing resolution.

REVENUE FORGONE REQUEST

Of the total request, $452 million is for revenue forgone to fund statutory authorizations for reduced rates of postage. As authorized, the revenue forgone subsidy is composed of three parts.

The first part is the continuing appropriation, which is based on a permanent authorization to pay the reduced-rate mailers' share of the overhead of the postal system, as determined in postal rate proceedings, plus all costs for free mail for the blind and overseas voting.

The second part, the phasing appropriation, is designed to ease the effect of general price increases on the subsidized mail categories by spreading those increases over a number of years. The gradual phasein of price increases was intended to permit the mailers that have been the most heavily subsidized over the years to adjust more easily to higher price levels covering their full attributable costs.

RECONCILIATION ADJUSTMENT

The third part of the revenue forgone request is a reconciliation adjustment of $52 million as authorized by the last sentence of section 2401(c) of title 39, United States Code. Audited mail volumes for fiscal year 1982 show that the appropriation received for free and reduced-rate mail, based on advance volume estimates, was this much less than the subsidy actually enjoyed by the affected mailers. The law requires submission of this reconciliation request based on the final audited volume figures in order to avoid either cross subsidies or overcharges to the taxpayers. In this connection, I note that the administration has proposed to add new language at the end of our appropriation bill that would prevent the Postal Service from requesting a reconciliation adjustment of the fiscal year 1985 revenue forgone appropriation. I understand it is intended that the Postal Service operate in the future within the amount appropriated by Congress each year and not request reconciliation payments when audited volume figures become available, despite the requirement in section 2401(c) to do so.

While the Postal Service defers to the President and the Congress as to what the total revenue forgone appropriation should be, the Postal Service may be unable faithfully to carry out the legislative will as to the subsidized classes if this legislative language is enacted, since it is impossible to accurately predict the volume of subsidized mail.

The foreseeable result would be either an overcharge on taxpayers generally from too high an estimated volume, or cross subsidies from other mailers because of one that is too low. I believe the existing system for a reconciliation adjustment is the preferable method, and I recommend its continuation.

Under the November continuing resolution, all preferred rate mailers had their rates continued at the rates in effect on September 1, 1983, at step 14 on the 16-step phasing schedule established pursuant to law.

The $452 million request is less than the amount which would be needed to fund just the continuing portion of the authorized price reductions for fiscal year 1985, even at current general price levels. In the absence of specific allocation instructions, we would assume the congressional intent is that all of the subsidized mailers other than the free mail categories, such as free mail for the blind, are to participate in the required rate adjustment, with their prices increasing to levels above step 16, as illustrated in the tables attached to my statement.

With regard to the policy issue of the amount that Congress should appropriate for this subsidy program, I believe we should continue to defer to the President and to the Congress.

PUBLIC SERVICE FUNDING

No funding is requested by the President or the Postal Service for fiscal year 1985 for the public service authorization. Title 39 of the United States Code authorizes $460 million for this item. However, the statute also authorizes the Postal Service to reduce its request to zero. No public service appropriation was provided for fiscal year 1984 or fiscal year 1983.

This year's request follows the decision made in 1981 to discontinue this subsidy as part of the general budgetary economy efforts under the President's program to hold down the Federal deficit. Since the Postal Service has operated successfully without this appropriation for 2 years, we do not believe an appropriation for public service costs is necessary for fiscal year 1985.

TRANSITIONAL APPROPRIATION

The Omnibus Budget Reconciliation Act of 1981 authorized no funding for transitional appropriations during fiscal years 1982 through 1984. However, during fiscal year 1985, amounts were authorized to be appropriated as necessary to reimburse the Postal Service for unfunded liabilities for annual leave and workers' compensation of employees of the former Post Office Department, both for the fiscal year 1985 installment and for the amounts deferred from fiscal years 1982 through 1984. By law, the United States remains liable for these obligations which arose before postal reorganization so that the mailing public of today will not be saddled with the cost of the deficit policies of the past on top of having to pay the full cost of present operations. The total appropriation request for this purpose is $239.5 million.

We will be pleased to try to respond to any questions you might have.

PREPARED STATEMENT

Senator **Abdnor**. I am going to ask unanimous consent to include the chart that you have attached to your statement and make it a part of the record.

[The statement follows:]

STATEMENT OF WILLIAM F. BOLGER

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I will be pleased to respond to your questions.

COMPARATIVE POSTAL PRICES FOR ILLUSTRATIVE MAILINGS
Adjusted for Appropriation Shortfall
Revenue Forgone Appropriations for all Classes Reduced Proportionately - FY 1985 1/

	Price at Total Revenue Forgone Appropriation of $801 Million 2/	Price at Total Revenue Forgone Appropriation of $851 Million 3/		Price at Total Revenue Forgone Appropriation of $731 Million 4/		Price at Total Revenue Forgone Appropriation of $452 Million 5/		Regular (Unsubsidized) Rate Level	
	Current Price (1)	Effective 10/1/84 (2)	Increase Over (1) (3)	Effective 10/1/84 (4)	Increase Over (1) (5)	Effective 10/1/84 (6)	Increase Over (1) (7)	Effective 10/1/84 (8)	Increase Over (1) (9)
Second Class Publications									
In County	3.6¢	3.4¢	(6%)	3.9¢	8%	6.0¢	67%	9.1¢	153%
Rural Newspaper: Frequency: Weekly Weight: 4 ounces Advertising: 50% All Delivered In County Presorted to 5 Digits									
Nonprofit	6.6¢	6.0¢	(9%)	7.3¢	11%	8.5¢	29%	9.2¢	39%
Veteran's Magazine Frequency: Monthly Weight: 4 ounces Advertising: 20% New York to Chicago Presorted to 5 Digits									
Classroom	6.7¢	6.4¢	(4%)	7.0¢	4%	11.2¢	67%	17.3¢	158%
Classroom Publication Frequency: Weekly Weight: 12 ounces Advertising: 15% New York to Chicago 32 Copies per piece									
Science of Agriculture	8.4¢	8.3¢	(1%)	8.4¢	0%	8.7¢	4%	9.1¢	8%
Rural Agricultural Newspaper Frequency: Weekly Weight 4 ounces Advertising: 50% Within 150 miles of entry Presorted to 5 Digits									

1/ These prices are appropriate only if prices are implemented on October 1, 1984. All price and Revenue Forgone determinations are based on current rate levels.
2/ Phasing Step 14. 3/ Scheduled phasing Step 13 with a July 6 advancement to Step 14. 4/ Phasing Step 15.
5/ Price is above full rate level.

COMPARATIVE POSTAL PRICES FOR ILLUSTRATIVE MAILINGS
Adjusted for Appropriation Shortfall
Revenue Forgone Appropriations for all Classes Reduced Proportionately - FY 1985 1/

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Under 5,000 Copies	7.2¢	6.7¢	(7%)	7.6¢	6%	8.5¢	18%	9.1¢	26%
Newspaper									
Frequency: Weekly									
Weight: 4 ounces									
Advertising: 50%									
Within 150 miles of entry									
Presorted to 5 Digits									
Third Class									
Nonprofit									
Fund-Raising Letter									
Weight: 3/4 ounce									
Nationwide Distribution									
Presorted to Carrier Route	3.3¢	3.0¢	(9%)	3.7¢	12%	5.2¢	58%	7.4¢	124%
Presorted to 5 Digits	4.3¢	4.0¢	(7%)	4.7¢	9%	6.6¢	53%	9.3¢	116%
Required Presort	5.2¢	4.9¢	(6%)	5.6¢	8%	7.8¢	50%	11.0¢	112%
Fourth Class									
Library Rate	$0.47¢	$0.43¢	(9%)	$0.51¢	9%	$0.66¢	40%	$.86¢	83%
Book Between Libraries									
Weight: 2 pounds									
New York to Chicago									

1/ These prices are appropriate only if prices are implemented on October 1, 1984. All price and Revenue Forgone determinations are based on current rate levels.
2/ Phasing Step 14. 3/ Scheduled phasing Step 13 with a July 6 advancement to Step 14.
4/ Phasing Step 15. 5/ Price is above full rate level.

GENERAL RATE INCREASE

Senator **Abdnor**. We are certainly happy to hear your reports; from the visit we had with you earlier, you seem to be doing very well there, and we are happy to know that you did not have to go into a prior-rate increase as quickly as you thought. I want to commend you for that. That certainly shows you are doing a great job with your productivity. I think you are going to delay that until sometime in 1985, you told me?

Mr. **Bolger**. That is right, Senator, no sooner than early 1985 now. We have had a much better fiscal year to date than we thought we were going to have, and we are confident that we can go into early 1985 before we have to increase our prices again. This will bring most ratepayers up to 4 years of price stability, and I think that is pretty good.

The last time we increased most of our prices was in March 1981. If we do not have to increase our prices until early 1985, that is a 4-year period of price stability.

We have been trying over the last several years in the Postal Service to space our price increases at least 2½ to 3 years apart. We have been able to accomplish that a couple of times now. This time, we will go nearly 4 years and, of course, we are trying to set our sights even higher than that as we go along.

PUBLIC SERVICE APPROPRIATIONS

Senator **Abdnor**. Well, that is wonderful. We are always glad to hear that, and you are to be commended for it—as a matter of fact, the entire USPS should be for the great effort put forth, and also for keeping the public service appropriations at zero for 1985. We are grateful for that.

Just for the record, I want to note that $460 million is the authorized figure for that. So you have made important strides in the Postal Service, and I hope the future will hold some more of the same.

Mr. **Bolger**. It is interesting to note that people predicted when we did away with this public service subsidy that we would probably have to reduce the levels of service, the number of delivery days, and the level of service in rural areas. I can assure you that we have not done that in the last 2 years without this subsidy, and we do not intend to do that in 1985.

Senator **Abdnor**. That is the greatest news I could ever hear, of course. That affects my State out there, and we are very, very thankful that you are able to do that. All I can say is it has got to be because of good management and good work on the part of your people.

Mr. **Bolger**. Thank you, Senator.

TRANSITIONAL APPROPRIATIONS

Senator **Abdnor**. You are requesting $239.5 million for unfunded liabilities. Your statement outlines the request, but for the record, could you explain the history of this appropriation and why the deferral?

Mr. BOLGER. When the Postal Service was created as an independent establishment in the executive branch of the Government, some of the old debts of the Post Office Department were carried forward—workers' compensation liabilities from former employees of the Post Office Department, and annual leave that had been accrued. Basically, what we are asking for is to have these funds that are owed to us by the Government appropriated, instead of being an additional burden on the current ratepayers. Normally, it would be a very minor amount of our total appropriation each year. However, the Budget Reconciliation Act of 1981 deferred the payments that were authorized for fiscal year 1982, 1983, and 1984 until fiscal year 1985. It was also decided at that time that we would not only get those 3 years' worth of appropriations in fiscal year 1985, but we would also get the sum authorized for fiscal year 1985. That is what that $239.5 million actually consists of.

Senator ABDNOR. That would take care of the whole thing; it would satisfy the whole account?

Mr. BOLGER. Yes, sir, for the amount due to date.

WORKERS' COMPENSATION

Senator ABDNOR. To date, yes. Will this satisfy the employees' compensation fund, as well?

Mr. BOLGER. These are employee claims going back to before postal reorganization. These are the amounts for old Post Office Department employees still on workers' compensation.

To get away from that for a moment, I think we have made a lot of progress in the last couple of years, working with the Labor Department and internally in the Postal Service. First of all, we have improved our safety and health record, cut down on the number of accidents, which, of course, cuts down on your liabilities. Also, some of the abuses of the Workers' Compensation Act have been ended. We are doing a better job monitoring this whole activity, and so is the Department of Labor. Secretary Donovan has worked very closely with the Postal Service on this to reduce total workers' compensation liability and to eliminate fraud and other abuses.

RECONCILIATION ADJUSTMENT

Senator ABDNOR. The reconciliation adjustment for fiscal 1985 totals just over $52 million. In recent years, the reconciliation adjustment has fluctuated significantly; will it stabilize in the future?

Mr. BOLGER. It is hard to predict. We have, really, no control. We do our best to estimate what the volume of subsidized mail is going to be. However, we are working months in advance—we are probably working 18 months in advance—when we really do not know what that level of subsidy is going to be because we do not know the volume until after mail is actually mailed.

Senator ABDNOR. Does that vary much from year to year?

Mr. BOLGER. Michael can probably fill you in a little bit better on that. Mr. Coughlin.

Mr. COUGHLIN. For fiscal year 1984, Senator, that total reconciliation amount was $162 million, as I recall. That was actually a reconciliation of the appropriation for fiscal year 1981. I believe in fiscal year 1981, because of various uncertainties about what that subsidy level was going to be, there were three different price changes for preferred rate mailers and the volume and the estimates that went with them swung all over the place, and resulted in that type of a large adjustment.

Now, for fiscal year 1982, which the $52 million here applies to, it is a more stable adjustment and one that would be more likely to occur in the future. It would be down in that area or less. But if we get into a situation where prices are going to change once or twice and sometimes three times in a year, the behavior of the mailers becomes extremely difficult to predict.

Senator ABDNOR. Prices, that is true; weight and numbers and everything have quite an effect.

FISCAL YEAR 1985 REVENUE FORGONE

Well, the figures you requested originally totaled $730 million plus for revenue forgone. That request would raise rates from, what, step 14 to step 15?

Mr. BOLGER. Actually, when the Postal Service submitted its budget to the OMB, we were submitting a budget on the level of step 13 and step 14.

Senator ABDNOR. Is that where we really should be?

Mr. BOLGER. That is where we are today, step 14, and we originally submitted our budget on that basis. The Board of Governors of the Postal Service decided that we probably should recommend moving up one step to step 15, and that is where this new figure comes from.

I differred from my Board on this. I personally think that this is none of our business and that it happens to be up to the elected representatives of the people of the United States as to how they are going to spend the taxpayers' dollars—what best represents the public's interest. I defer to the Congress and the President on this.

Senator ABDNOR. Well, that is about right. I mean, we end up doing around here what they want to do, anyway, it seems like.

Well, if we kept that at step 14, what would it take in dollars.

Mr. BOLGER. Michael, do you have that handy? We have a chart, which has been submitted for the record.

Step 14, for the entire fiscal year 1985, $801 million.

Senator ABDNOR. Eight hundred and one?

Mr. BOLGER. Plus the $239.5 million. If you kept it at step 14, and you gave us the total amount we are due for the reconciliation for fiscal year 1982, and the $239.5 million we are due for the old liabilities of the Post Office Department, the total appropriation would have to be $1.041 billion.

ORIGINAL PHASING SCHEDULE

Senator **Abdnor**. Well, now, we have accelerated, I guess, the phasein schedule over the past few years—I get mixed up when you talk about these steps.

What would have happened, Mr. Hughes, if we had stayed on schedule? What step would we be at today?

Mr. **Coughlin**. Senator, we would be at step 13, going to 14 in mid-fiscal year 1985. Under that scenario, our total revenue forgone request would have been $851 million.

Senator **Abdnor**. So we would be right on target if we kept it at step 14.

Mr. **Coughlin**. If we were following the originally established phasing schedule, we would be effectively reducing rates on October 1, 1984, to go back to step 13 and moving up to step 14 in July 1985. The amount required would be $851 million, we estimate.

Senator **Abdnor**. So there was a total of 16 steps to go through, correct?

Mr. **Coughlin**. Yes, sir.

Senator **Abdnor**. What happens when we get to 16?

ELEMENTS OF REVENUE FORGONE

Mr. **Coughlin**. Well, the revenue forgone appropriation is effectively a two-part appropriation. It contains, first of all, the phasing appropriation. That is the difference between the price that the mailer is actually paying and 100 percent of his or her attributable costs. The law restricts us in setting prices for these mailers to no more than 100 percent of their attributable costs. They make no contribution through their prices to institutional overhead.

The second part of that appropriation is what we call the continuing appropriation, and that amount for fiscal year 1985 totals about $608 million. The continuing appropriation is the statutorially determined contribution of the preferred rate mailers to the institutional costs of the Postal Service.

Mr. **Bolger**. When we are setting a rate, we have to determine the exact attributable cost of processing that mail. You cannot get all your costs attributed to a class or classes of mail. You look at the total institutional cost, and you assess each class or subclass of mail a certain percentage of that institutional cost. These preferred rate mailers, because of the permanent laws that exist today, would always be exempt from paying a contribution to institutional costs. That is the simplified way to put it.

Senator **Abdnor**. In 2 years time, if we go to 15 in 1985, and then we are at 16 in 1986, then we will have to decide how far we really want to go with this thing. But there are 16 steps in the phasing agreement.

Mr. **Bolger**. That is right.

Senator **Abdnor**. Do you ever have a half-step at a time?

Mr. **Bolger**. No; we have not had.

Senator ABDNOR. Could there be?

Mr. BOLGER. We have had some types of situations where partway through the year, the phasing changed, and as a result, you could say we were at 13½ or 14½. At different times of the year, the subsidy changed.

NONPROFIT AND PREFERRED RATE MAILERS

Senator ABDNOR. Yes; I guess it depends on how many dollars we come up with, we can do almost anything.

Have you any idea how many organizations receive the reduced rate?

Mr. BOLGER. I do not, offhand.

Mr. COUGHLIN. We have authorized for preferred rate mailers some 320,000 permits—right in that ball park—across the country. These are all the way from very, very small——

Senator ABDNOR. What do you measure? What are the things you look for to qualify them?

Mr. COUGHLIN. There are established—and maybe Mr. Hughes can comment on this more than I can—about eight different categories of organizations that can qualify for preferred rates. They include religious, educational, agricultural, some of these types of things. They must demonstrate with some documentation that they do in effect——

Senator ABDNOR. Could we have that for the record?

Mr. COUGHLIN. Yes, sure.

Senator ABDNOR. I think it would be interesting to see, because I know there are an awful lot of groups.

[The information follows:]

Excerpt From the Domestic Mail Manual

623 Special Bulk Rates

623.1 Authorization. Only organizations which meet the requirements of 623.2 or 623.3 and which have received specific authorization from the Postal Service may mail eligible matter at the special bulk rates contained in Exhibit 611.2. (See application procedure in 642.) Before mailing at the special bulk rates, a mailer must be issued a special rate authorization. A separate authorization is required at each post office where special rate mailings are deposited.

623.2 Qualified Nonprofit Organizations

.21 General. The following organizations may be authorized to mail at the special bulk rates if they are not organized for profit and none of their net income inures to the benefit of any private stockholder or individual:

a. Religious
b. Educational
c. Scientific
d. Philanthropic
e. Agricultural
f. Labor
g. Veterans'
h. Fraternal

.22 Primary Purpose. The standard of *primary purpose* used in the definitions of qualified nonprofit organizations in 623.23 requires that the organization be both organized and operated for the primary purpose. Organizations which *incidentally* engage in qualifying activities do not meet the primary purpose test.

.23 Definitions of Eligible Nonprofit Organizations

.231 Religious. A nonprofit organization whose primary purpose is one of the following:

a. To conduct religious worship (for example, churches, synagogues, temples, or mosques).

b. To support the religious activities of nonprofit organizations whose primary purpose is to conduct religious worship.

c. To further the teaching of particular religious faiths or tenets, including religious instruction and the dissemination of religious information.

.232 Educational. A nonprofit organization whose primary purpose is the instruction or training of individuals for the purpose of improving or developing their capabilities or the instruction of the public on subjects beneficial to the community.

Note: a. An organization may be educational even though it advocates a particular position or viewpoint as long as it presents a sufficiently full and fair exposition of the pertinent facts to permit an individual or the public to form an independent opinion or conclusion. Conversely, an organization is not considered educational if its principal function is the mere presentation of unsupported opinion.

b. Examples of educational organizations are:

(*1*) An organization (such as a primary or secondary school, a college, or a professional or trade school) which has a regularly scheduled curriculum, a regular faculty, and a regularly enrolled body of students in attendance at a place where educational activities are regularly carried on.

(*2*) Any organization whose activities consist of presenting public discussion groups, forums, panels, lectures, or similar programs. Such programs may be on radio or television.

(*3*) Any organization which presents a course of instruction by means of correspondence or through the use of television or radio.

(*4*) Museums, zoos, planetariums, symphony orchestras, and similar organizations.

.233 Scientific. A nonprofit organization whose primary purpose is one of the following:

a. To conduct research in the applied, pure, or natural sciences.

b. To disseminate technical information dealing with the applied, pure, or natural sciences.

.234 Philanthropic (Charitable). A nonprofit organization organized and operated for purposes beneficial to the public.

Note: a. Examples of philanthropic organizations include those which are organized to:

(*1*) Relieve the poor and distressed or the underprivileged.
(*2*) Advance religion.
(*3*) Advance education or science.
(*4*) Erect or maintain public buildings, monuments, or works.
(*5*) Lessen the burdens of government.
(*6*) Promote social welfare for any of the above purposes or to lessen neighborhood tensions; to eliminate prejudice and discrimination; to defend human and civil rights secured by law; or to combat community deterioration and juvenile delinquency.

b. The fact that an organization which is organized and operated to relieve indigent persons may receive voluntary contributions from those persons does not necessarily make it ineligible for special bulk rates as a philanthropic organization. The fact that an organization, in carrying out its primary purpose, advocates social or civic changes or presents ideas on controversial issues to influence public opinion and sentiment towards an acceptance of its views, does not necessarily make it ineligible for special bulk rates as a philanthropic organization.

.235 Agricultural. A nonprofit organization whose primary purpose is the betterment of the conditions of those engaged in agricultural pursuits, the improvement of the grade of their products, and the development of a higher degree of efficiency in agriculture.

Note: a. The organization may further and advance agricultural interests through:

(*1*) Educational activities;
(*2*) Holding agricultural fairs;

(*3*) Collecting and disseminating information concerning cultivation of the soil and its fruits or the harvesting of marine resources;

(*4*) Rearing, feeding, and managing livestock, poultry, bees, etc.; or

(*5*) Other activities related to agricultural interests.

b. The term *agricultural* also includes any nonprofit organization whose primary purpose is collecting and disseminating information or materials related to agricultural pursuits.

.236 Labor. A nonprofit organization whose primary purpose is the betterment of the conditions of workers.

Note: a. Labor organizations include, but are not limited to, organizations in which employees or workers participate whose primary purpose is to deal with employers concerning grievances, labor disputes, wages, hours of employment, working conditions, etc.

b. Labor unions and employees' associations are examples of organizations formed for these purposes.

.237 Veterans'. A nonprofit organization of veterans of the armed services of the United States, or an auxiliary unit or society of, or a trust or foundation for, any such post or organization.

.238 Fraternal. A nonprofit organization which meets *all* of the following criteria:

a. Has as its primary purpose the fostering of brotherhood and mutual benefits among its members;

b. Is organized under a lodge or chapter system with a representative form of government;

c. Follows a ritualistic format; and

d. Is comprised of members who are elected to membership by vote of the members.

Note: Fraternal organizations include such organizations as the Masons, Knights of Columbus, Elks, and college fraternities and sororities, and may include members of either or both sexes. Fraternal organizations do not encompass such organizations as business leagues, professional associations, civic associations, or social clubs.

623.3 Qualified Political Committees

.31 General. The following political committees may be authorized to mail at the special bulk rates without regard to their nonprofit status:

a. A national committee of a political party

b. A state committee of a political party

c. The Republican Senatorial Campaign Committee

d. The Democratic Senatorial Campaign Committee

e. The Democratic National Congressional Committee

f. The National Republican Congressional Committee

.32 Definitions of Qualified Political Committees

a. *National Committee*

The organization which, by virtue of the bylaws of a political party, is responsible for the day-to-day operations of such political party at the national level.

b. State Committee

The organization which, by virtue of the bylaws of a political party, is responsible for the day-to-day operation of such political party at the state level.

623.4 Ineligible Organizations. The following and similar organizations do not qualify for the special bulk rates even though they may be organized on a nonprofit basis: automobile clubs; business leagues; chambers of commerce; citizens' and civic improvement associations; individuals; mutual insurance associations; political organizations (other than those specified in 623.3); service clubs such as Civitan, Kiwanis, Lions, Optimist, and Rotary; social and hobby clubs; associations of rural electric cooperatives; and trade associations. In general, State, county, and municipal governments are not eligible for the special bulk rates. However, a separate and distinct State, county, or municipal governmental organization which meets the criteria for any one of the specific categories in 623.2 may be eligible, notwithstanding its governmental status. For example, school districts and public libraries may be eligible under 623.232 (educational). Nevertheless, governmental organizations will normally not be eligible under 623.234 (philanthropic), since their income is generally not derived primarily from voluntary contributions or donations.

623.5 What May Be Mailed

.51 An organization authorized to mail at the special bulk rates may mail *only* its own matter at those rates. An organization may not delegate or lend the use of its permit to mail at the special bulk rates to any other person or organization.

.52 Cooperative mailings may be made at the special bulk rates only when each of the cooperating organizations is individually authorized to mail at the special bulk rates at the post office where the mailing is deposited. Cooperative mailings involving the mailing of any matter in behalf of or produced for an organization not itself authorized to mail at the special bulk rates at the post office where the mailing is deposited must be paid at the applicable regular rate. If customers disagree with a postmaster's decision that the regular rate of postage applies to a particular mailing, they may appeal the decision in accordance with 133. See Form 3602, *Statement of Mailing With Permit Imprints,* or Form 3602-PC, *Statement of Mailing–Bulk Rates,* for the certifications required of special bulk rate mailers for mailings made under this section.

623.6 Identification. All matter mailed at the special bulk rates must identify the authorized permit holder. The name and return address of the authorized permit holder must appear either on the outside of the mailing piece or in a prominent location on the material being mailed. Pseudonyms or bogus names of persons or organizations may not be used. If the mailing piece bears any name and return address, it must be that of the authorized permit holder. A well recognized alternative designation or abbreviation such as "The March of Dimes" or the "AFL-CIO" may be used in place of the full name of the organization.

ORGANIZATIONS EXEMPT UNDER TAX CODES

Mr. **Bolger**. It is basically the types of organizations that are generally exempt by the IRS under the Tax Codes, with one exception; the exception of the exemption under the Tax Codes to the chamber of commerce or service clubs. They are not included among nonprofit or preferred rate mailers. Even then, within those groups, there are some exceptions, too. For instance, the Lions' Club as a service club cannot enjoy the preferred rates, but the program that they have in connection with sight conservation and helping people that are blind participate for that purpose. It is generally, though, following the Internal Revenue Code; the same type of exemptions for nonprofit or preferred mailers are in our code as in the Internal Revenue Code.

Senator **Abdnor**. I suppose some groups are a lot heavier users than others.

PREFERRED RATE MAILERS

Mr. **Bolger**. Yes; it varies. A lot of the preferred rate mailers happen to be fundraising activities—volunteer groups to raise funds for various worthy causes. A lot of the mailings come from groups like that.

Senator **Abdnor**. Well, if any thought were going to be given to tightening up the qualifications, who would do it—the Post Office?

Mr. **Bolger**. No; we follow the law. Of course, every once in a while, there is some interpretation as to whether an organization qualifies or not. But we generally look at their bylaws and their charter. Tax exemption is one of the requirements we look at—that they do qualify under the Internal Revenue Code. This is how we establish them as an organization that meets the requirements of the law.

I must say this is pretty routine, because the law itself rigidly dictates who qualifies for these preferential rates.

Senator **Abdnor**. More and more, we call on these organizations to do more work and to put forth greater efforts toward raising finances to carry on the programs.

Mr. **Bolger**. Sure. In the last couple of years, as the Government or the taxpayers have not been able to afford to do things that they have done in the past, we have called on various organizations and the private citizenry to do more in the way of helping people in need, and there has been a greater influx in the amount of mail that goes to them.

SIX-DAY DELIVERY—SMALL POST OFFICES

Senator **Abdnor**. Well, they are to be commended, and they let us know that sometimes, that they are carrying quite a load.

Let me jump over to small post offices. Some around here are really interested in them. I just want you to know I could not be more pleased with the attention we have given them and the efforts the post office has made to try to keep them operating.

Now how does the picture look for the small post offices and their 6-day mail delivery?

Mr. BOLGER. Well, as far as I am concerned, we are having difficulties enough delivering mail in 6 days, let alone trying to get to 5 at the present time. We have an ever-growing volume of mail. We expect this year to have somewhere in the neighborhood of 125.5 billion pieces of mail, which is up from 119 billion pieces of mail last year. It looks very much like it is going to be even higher than that, close to 128 billion pieces of mail this year, an unusual volume increase, but it is all good news. It has to do with our economy. Inflation is down, the economy is better, and our rates are stable for longer periods of time.

So I think we need the 6-day delivery right now, and the way we are growing, we are going to have to continue it. Now, the small post offices—there will be an occasion where we will close a post office and substitute suitable service. But we have no program where we are out trying to make surveys to determine this. We just take them one case at a time. I think the rural post offices make a very valuable contribution to our country and to the Postal Service. Occasionally in an area, we have a location where we can provide adequate or better service by not having the post office there, but in general, we are not going to have any wholesale closing of post offices, nor are we going to have any attempts made to have any wholesale closing of post offices.

Senator ABDNOR. I can certainly say that is true, because I have not had any great numbers of calls on this, and we are very grateful for it.

COMMUNITY POST OFFICES

How is the community post office facility? That is working real well, isn't it?

Mr. BOLGER. It is, sir. When we find that we need to substitute service for a Government-operated post office, our first attempt is always to try to get somebody to do that under contract. We keep the name of the post office, the same address, the same ZIP code, and the same level of service, and we can usually do it more cost effectively. There are several good effects of that. It keeps that same level of service, it keeps that community identity, and, another thing, we usually help that particular small business—the general store or filling station—to stay in business. I think it serves everyone well.

Senator ABDNOR. I know, and we see a lot of examples of that, and speaking for one of those very rural States, we have not heard any complaints out in South Dakota, and we are very happy not to have them.

COLLECTIVE BARGAINING

Well, this summer, you are going to return to the bargaining table; is that right?

Mr. BOLGER. Yes, sir.

Senator ABDNOR. I know you have your own thoughts on what you are going to be talking about. I do not want to try to have you say something you do not want to talk about, but what are some of the big issues?

Mr. BOLGER. Well, one of the things that I am thinking of is the whole picture of our costs and our rates. Eighty-three cents of every dollar we spend still goes to wages, salaries, and fringe benefits, and I have to be very conscious of that.

Senator ABDNOR. In that respect, do you pay attention to what is going on in the private sector?

Mr. BOLGER. Yes, sir. The law says that we will compensate our employees comparably to similar work in the private sector. We certainly are cognizant of that. We have had various studies done to see where we are and where we stack up with the private sector for compensation for like skills. I do not know the final results of those studies, but before we start into negotiations sometime next month, we will have those studies available to us. We will certainly be cognizant of our requirements under the law and we will go to the bargaining table with the full understanding that this is what the law requires of us. We have the public interest to be concerned with, and I have the interest of our employees to be concerned with. We want a good, productive work force—a happy work force—people who feel they are well-compensated and have good fringe benefits. In the final analysis, we have to look after the interests of the people who finally pay the bills—the people that use the mail service—and so do our unions and our employees.

Senator ABDNOR. Well, I really want to thank you for your testimony today. It is always a pleasure to have you here. Your testimony is outstanding, and you give us direct answers.

SERVICE OF THE POSTMASTER GENERAL

Did you tell me a while back that your term is coming to an end?

Mr. BOLGER. Well, I have an employment contract with the Board of Governors. I have put in about 44 years of Government service, and the current plans call for me to probably leave the Postal Service on December 31 of this year. Of course, I have one of those high-risk jobs—I serve at the pleasure of the Board, and they meet every 30 days.

Senator ABDNOR. Well, if I were a member of the Board, I would keep you around for a long time, but you probably have other thoughts on what you would like to do.

You have had a very distinguished career—how many years is it?

Mr. BOLGER. Forty-four years.

Senator ABDNOR. Well, you have had a very distinguished career, and certainly, these last few years, you have brought the Post Office along beautifully. I know I can speak for all the subcommittee, even though we are not all here, but I know I can speak for Dennis DeConcini, that we would like to thank you for a great job, well done.

Mr. BOLGER. Senator, thank you very much for the kind words. It has been a pleasure to work with this committee. I have enjoyed it very much. I am sure, between now and December, we will still have a lot of things we will be doing together.

Senator ABDNOR. Sure. We will be getting back to you on some things; we will have problems, I know.

Well, this concludes our hearing for the afternoon. Our next subcommittee meeting will be on Monday, April 9, when we will hear from the Commissioner of Customs. Somehow, I get a feeling that will not go quite as smoothly as this. I want to note that the fiscal year 1985 Customs budget has raised considerable discussion—and I do not mean to be making any disparaging remarks about our Commissioner of Customs, who does a great job, but he has some real problems over there with budgeting. So we are looking forward to our meeting with him.

PREPARED STATEMENT AND JUSTIFICATION

Let me say that the Commission on Executive, Legislative, and Judicial Salaries is appointed to review the salary structure. Now, members of the staff are not appointed until October 1, 1984, so it is impossible to receive testimony in that regard at this time. The General Services Administration is charged with the preparation of the budget submission.

So, I want to ask unanimous consent that the GSA summary and justification be made a part of the record.

[The information follows:]

STATEMENT OF RAYMOND A. FONTAINE, COMPTROLLER, COMMISSION ON EXECUTIVE, LEGISLATIVE, AND JUDICIAL SALARIES

Mr. Chairman and distinguished members of this Subcommittee, it is my privilege to testify before you on behalf of the Commission on Executive, Legislative, and Judicial Salaries. I have with me Mrs. Karen S. Jackson from the General Services Administration External Services Budget Staff. The General Services Administration will be providing administrative support services to the Commission when it activates. Since the Commission will not become active until October 1, 1984, there have not yet been any members or staff appointed to the Commission.

The Commission on Executive, Legislative, and Judicial Salaries was established under Public Law 90-206, as amended, on December 16, 1967. Every 4 years the Commission is appointed with the responsibility to conduct a review of the rates for pay of:

(A) the Vice President of the United States, Senators, Members of the House of Representatives, the Resident Commissioner from Puerto Rico, the Speaker of the House of Representatives, the President pro tempore of the Senate, and the majority and minority leaders of the Senate and the House of Representatives;

(B) the Comptroller General of the United States and Deputy Comptroller General, the General Counsel, GAO, the Librarian and Deputy Librarian of Congress, and the Architect and Assistant Architect of the Capital;

(C) the Chief Justice of the United States and the Associate Justices, circuit judges, district judges,

judges of the Court of Claims, the Court of Customs and Patent Appeals, and the Customs Court, the Director and Deputy Director of the Administrative Office of the United States Courts, Commissioners of the Court of Claims, and judges of the Tax Court and of the Court of Military Appeal and magistrates;

(D) offices and positions under the Executive Schedule in subchapter II of chapter 53 of title 5, United States Code; and

(E) the Governors of the Board of Governors of the United States Postal Service appointed under section 202 of title 39, United States Code.

These reviews by the Commission are made for the purpose of determining and providing--

(i) the appropriate pay levels and relationships between and among the respective offices and positions covered by such review, and

(ii) the appropriate pay relationships between such offices and positions and the offices and positions subject to the provisions of chapter 51 and subchapter III of chapter 53 of title 5, United States Code, relating to classification and General Schedule pay rates.

The nine Commissioners of the Commission are appointed by representatives of each of the three branches of the Federal government. Three, including the Chairman, are appointed by the President, and two each by the President of the Senate, the Speaker of the House of Representatives, and the Chief

Justice. A list of the members of the 1980 Commission is attached. The Commission submits a report of the results of its review, together with its recommendations, on such date as the President may designate but not later than January 1 next following the close of the fiscal year in which the review is conducted by the Commission. The review of the Fiscal Year 1980 Commission was submitted on December 15, 1980. Historically, the Commission has been active for approximately a 3-month period.

The Law states that the President shall include, in the budget next transmitted by him to the Congress after the date of the submission of the report and recommendations of the Commission, his recommendations with respect to the exact rates of pay which he deems advisable. The Law further states that--

> (1) Within 60 calendar days of the submission of the President's recommendations to the Congress, each House shall conduct a separate rollcall vote on each of the recommendations of the President. If both Houses approve by majority vote the recommendations, the recommendations shall become effective at the beginning of the first pay period which begins after the thirtieth day following the approval of the recommendation by the second House to approve the recommendation.
>
> (2) Any part of the recommendations of the President may, in accordance with express provisions of such recommendations, be made operative on a date later than the date on which such recommendations otherwise are to take effect.

Mr. Chairman, on behalf of the Commission, I am requesting an amendment to the fiscal year 1985 budget of $160,000. This amount was originally requested as a fiscal year 1984 supplemental. However, a recent Office of Personnel Management legal opinion has stated that the Commission, pursuant to its Public Law, cannot become active until October 1, 1984. This $160,000 request is the same amount which was appropriated for the FY 1981 Commission. We believe that the FY 1985 Commission would again complete its review in a 3-month period and that any increase in costs due to inflation and pay raises would be absorbed by $16,000 in unobligated funds which are available to the Commission from the FY 1981 Commission.

Members of the 1980 Commission:

Appointed by the President:

Joseph H. McConnell, Chairman of the Commission
Former Chairman
Communications Satellite Corporation
Washington, D.C.

Thomas R. Donahue
Secretary-Treasurer
AFL-CIO
Washington, D.C.

Martha W. Griffiths
Partner, Griffiths and Griffiths
Romeo, Michigan

Appointed by the President of the Senate:

Robert P. Griffin
Counsel to the firm of
Miller, Canfield, Paddock and Stone
Traverse City, Michigan

Edward P. Morgan
Partner, Welch & Morgan
Washington, D.C.

Appointed by the Speaker of the House:

Sherman Hazeltine
Chairman Emeritus
Firt National Bank of Arizona
Phoenix, Arizona

Richard W. Young
Executive Vice President
Polaroid Corporation
Cambridge, Massachusetts

Appointed by the Chief Justice:

Bernard G. Segal
Chairman
Schnader, Harrison, Segal and Lewis
Philadelphia, Pennsylvania

Otis M. Smith
Vice President and General Counsel
General Motors Corporation
Detroit, Michigan

JUSTIFICATION

SALARIES AND EXPENSES

For necessary expenses of the Commission on Executive, Legislative, and Judicial Salaries, authorized by section 225 of the Postal Revenue and Federal Salary Act of 1967 (81 Stat. 642-645), $160,000, to remain available until expended.

Under Public Law 90-206, as amended, a Commission on Executive, Legislative, and Judicial Salaries is appointed every 4 years to make recommendations to the President on the appropriate level of compensation for the Vice President and for positions in the executive branch from Cabinet officers through Level V, for Members of Congress, and for Supreme Court Justices and other members of the Federal judiciary.

Nine Commissioners are appointed by representatives of each of the three branches of the Federal government. Three, including the Chairman, are appointed by the President, and two each by the President of the Senate, the Speaker of the House of Representatives, and the Chief Justice.

The Commission makes its recommendations to the President, and he submits his recommendations to the Congress as part of his next budget message. To become effective, the recommendations must be adopted by rollcall vote within 60 days by both the House and the Senate.

The amount of $160,000 in new budget authority is being requested for the Fiscal Year 1985 Commission which will become active on October 1, 1984. Historically, the Commission has completed its review within 3 months. This appropriation, plus $16,000 in unobligated funds available from the previous Commission, will provide adequate funding for the Commission for 3 months; the FY 1981 Commission had obligations of $158,000. It is anticipated that the FY 1985 Commission's obligations would be $18,000 higher due to increased costs due to inflation and pay raises since October 1980.

COMMISSION ON EXECUTIVE, LEGISLATIVE, AND JUDICIAL SALARIES

SALARIES AND EXPENSES

PROGRAM AND FINANCING

Identification code 48-2800-8-1-805		1983 actual	1984 estimate	1985 estimate
	Program by activities:			
10.00	Administrative expenses (total obligations)			$176,000
	Financing:			
21.40	Unobligated balance available, start of year	$16,00	$16,000	16,000
21.40	Unobligated balance available, end of year	−16,000	−16,000	
40.00	Budget authority (appropriation)			160,000
	Relation of obligations to outlays:			
71.00	Obligations incurred, net			176,000
90.00	Outlays			176,000

OBJECT CLASSIFICATION

Identification code 48-2800-8-1-805		1983 actual	1984 estimate	1985 estimate
	Personnel compensation:			
11.3	Positions other than permanent			$70,000
	Total personnel compensation			70,000
	Personnel benefits:			
12.1	Civilian			4,000
21.0	Travel and transportation of persons			20,000
23.1	Standard level user charges			8,000
23.2	Rent, communications, and utilities			8,000
24.0	Printing and reproduction			11,000
25.0	Other services			51,000
26.0	Supplies and materials			4,000
99.0	Total obligations			176,000

BUDGET/PROGRAM HISTORY

Budget appendix	Actual column	Activated	Commission report	Budget/authority	Obligation
1983	Fiscal year 1981	Oct. 1980	Dec. 1980	$160,000(X)	$158,000
1979	Fiscal year 1977	Oct. 1976	Dec. 1976	100,000(X)	83,000
1975	Fiscal year 1973	Oct. 1972	June 1973	100,000(A)	38,000
1971	Fiscal year 1968	Oct. 1968	Dec. 1968	199,000(A)	17,000

ADDITIONAL COMMITTEE QUESTIONS

Senator ABDNOR. We will have some additional questions. In fact, we do have some, and we will submit those in writing.

Mr. BOLGER. We would be delighted to supply them for the record.

Senator ABDNOR. Fine.

[The following questions were not asked at the hearing but were submitted to the Department for response subsequent to the hearing:]

ADDITIONAL COMMITTEE QUESTIONS

Question. The status of the downtown post office in Yuma, Ariz., has been the cause of continual concern among the residents of Yuma, Ariz. I would like to reiterate to you my concern about the fate of that post office and my sincere hope that it will not be closed. Can you tell me what the Postal Service's present plans for the downtown post office in Yuma are?

Answer. As you know, the Postal Service and the city of Yuma entered into a stipulation in U.S. District Court for the District of Arizona on October 3, 1980, calling for the Postal Service to maintain a classified, full-service station at 370 South Main St., until at least October 15, 1984. Following that date, the Postal Service will reevaluate the suitability of the downtown station for the services required by the community.

Question. I hope that you will keep me notified on any changes in the status of the Yuma Post Office.

Answer. We will be glad to.

SUBCOMMITTEE RECESS

Senator ABDNOR. If there is no further business to come before the subcommittee, we are going to be in recess until 2 p.m., on Monday, April 9.

[Whereupon, at 2:50 p.m., Wednesday, March 28, the subcommittee was recessed, to reconvene at 2 p.m., Monday, April 9.]

TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 1985

TUESDAY, APRIL 10, 1984

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 2:10 p.m., in room SD–192, Dirksen Senate Office Building, Hon. James Abdnor (chairman) presiding.

Present: Senators Abdnor and DeConcini.

Also present: Senator Chiles.

DEPARTMENT OF THE TREASURY

U.S. CUSTOMS SERVICE

STATEMENT OF ROBERT E. POWIS, DEPUTY ASSISTANT SECRETARY (ENFORCEMENT)

ACCOMPANIED BY:
- WILLIAM VON RAAB, COMMISSIONER OF CUSTOMS
- GEORGE C. CORCORAN, ASSISTANT COMMISSIONER (ENFORCEMENT)
- EUGENE H. MACH, ASSISTANT COMMISSIONER (INSPECTION AND CONTROL)
- WILLIAM H. RUSSELL, COMPTROLLER
- C. WAYNE HAMILTON, DIRECTOR, OFFICE OF FINANCIAL MANAGEMENT AND PROGRAM ANALYSIS
- ARTHUR D. KALLEN, DIRECTOR, OFFICE OF BUDGET AND PROGRAM ANALYSIS, DEPARTMENT OF THE TREASURY
- FRANK BRENNAN, DIRECTOR OF THE DUTY ASSESSMENT DIVISION

OPENING REMARKS

Senator ABDNOR. The subcommittee will come to order.

Today will mark the final day of hearings on the fiscal year 1985 budget requests. We are going to hear testimony from the Deputy Assistant Secretary for Enforcement, Robert Powis and the Commissioner of Customs, William von Raab, and because of its importance, at the conclusion of Commissioner von Raab's testimony, we will also have a brief discussion about the proposed border consolidation plan.

Before we begin, however, I want to reemphasize a point I made to Secretary Regan when he testified before this subcommittee. I am displeased with the budget transmission. We have heard time and time again that law enforcement is a top priority. Department of Justice enforcement agencies have received increases in their budgets to do the job.

The Department of Treasury, on the other hand, proposes reducing its effort, and as you are all aware, I am not considered a big spender. However, I am a strong advocate of law enforcement. The Customs Service has been the frontline domestic defense of this country for over 200 years. Its people have a difficult job, and it is getting no easier. We are trying to protect this Nation's manufacturers by checking imports. They are trying desperately to stop the flow of high technology to the Soviet bloc, and they are locked in a difficult battle with traffickers in illegal narcotics.

They have been successful in their efforts, and I applaud them for an effort well done. However, I am fearful that if we do not continue to provide our people with the equipment and the means to combat the drug invasion, this country faces desperate times ahead.

There is not a community in this Nation which has not been affected. We are talking about a $100 billion business. It is not only adversely affecting our society, but it has an incredible impact on the economy of this Nation. We are fighting a war against drugs. I believe we have made strides but, quite frankly, if we continue to approach the problem with budget proposals like this, I fear we could well lose that war. Gentlemen, I don't intend to let that happen.

This budget does distress me. Last year, Customs was reduced by 400 positions. This year, you proposed further cuts of over 950 positions. I have heard the "more for less" theory espoused, but I can't buy it in this case.

Senator, I guess I have had my say. I call on you for your comments.

Senator DECONCINI. Mr. Chairman, let me say that your statement is what is on my mind, and I can't say that mine will be any softer or any more eloquent. I applaud you for the strong position you have consistently taken on the war against drugs. You are in a difficult position when the administration and your political party are the same, and it takes great courage, and I thank you for that, because this is not partisan. It is what has to be done.

It is what I would like to believe is earnestly within the President's own mind, as he has expressed in his public statements time and time again. I know from talking to the Vice President he is thoroughly committed. I know from talking to Customs, Commissioner von Raab and his people, that they are thoroughly committed, and yet we are faced here with the fiscal year 1985 Customs budget which is a tragedy as it relates to trying to implement what we all want to do and what the chairman points out so well.

It cuts nearly 960 people off the payroll at a time when drugs are pouring into this country in a record amount. It virtually dismantles our major Air Interdiction Program. Perhaps we had some slight change in that recently with the Vice President's very magnificent role in bringing about better direction there.

It cuts back 25 percent our major programs for combating high technology exports to Soviet bloc countries at a time when the Defense Department and the President are calling for a tougher, not a weaker, crackdown on illegal exports to the Soviets. It cuts back the number of inspection personnel, as the chairman pointed out, 400 positions, even though inspectors have over 70 percent of all Customs arrests and seizures by their own statistics.

It cuts the Marine Drug Interdiction Program by over 30 percent at a time when the number of small drug-smuggling boats blanket the Caribbean, the Gulf of Mexico, and even the Atlantic southeastern coast.

And, to make matters worse, the administration has embarked on an ill-conceived primary border inspection plan that chops another 282 Customs patrol officers out of the Customs work force.

When I talked to INS and the Customs people about it, there were those who said, "Yes, yes, we would like to see this happen, that the program was out and everybody was together." I feel great sympathy for those who have to play the game.

Add to this the 2,000 position cut proposed last year, and it is clear that this administration is no friend of the Customs Service.

The administration's plan to consolidate primary inspection and Customs Service is fragmented and wasteful at best, but it does seem to support the administration's drug enforcement theme of 1984, "If it's broke, let's make it worse." The plan doesn't address the major problems facing primary inspection. No one agency is in charge. It reduces our narcotics drug enforcement efforts at the land borders. It cuts back on our ability to process aliens at the airports. It does nothing to improve the seaports. It fragments management at the land borders and breeds dissension among Customs and INS on all airports.

This plan makes no sense and does not address the real congressional concerns regarding the primary inspection of the program put before us, or, really, the Air Interdiction Program that we are all committed to.

So, Mr. Chairman, this committee has both the opportunity and the obligation to turn this Customs budget around. Senator Chiles and I have presented one alternative that I know will be considered, both in the House and in this committee, and I know with your leadership you will have your own priorities. You and I have joined in so many times in boosting not only the resources, but the direction that we believe the war on drugs must take.

Mr. Chairman, I am sorry to be in the mood that I am in, but, as you so eloquently stated your distress with this budget, it is discouraging. But like you, I am going to do everything I can to make sure it doesn't happen.

Thank you.

Senator ABDNOR. Well, thank you, Senator DeConcini. As always, you are in there with outstanding proposals to offset what we feel will not be a workable solution to problems, and it has always been my pleasure to work with you.

We do have very important testimony coming before us in a few minutes. This is, I feel, one of the most important sessions we have had during this whole group of hearings we have held on the subject of the U.S. Treasury, Postal Service and general government agencies, and this is our second go-round with Mr. von Raab, but we think this is extremely important and we are very pleased to have Robert E. Powis, who is the Deputy Assistant Secretary of Treasury for Law Enforcement, here with us, along with our Commissioner, and the gentlemen accompanying them.

I assume, Mr. Powis, you will start off. Would you care to introduce your colleagues? We will be happy to have you do that.

OPENING STATEMENT

Mr. Powis. Thank you, Mr. Chairman, and Senator DeConcini. I am pleased to appear before you today in support of the annual appropriation request of the U.S. Customs Service for fiscal year 1985.

Mr. Chairman, with your permission, before I begin I would like to take a moment to give recognition, on behalf of the Treasury Department, to the contribution of Inspector Richard M. Latham, who was killed on January 27, 1984, in the line of duty when he discovered a smuggling attempt by four persons at Del Rio, TX. Inspector Latham was a highly respected and dedicated employee who had served with the U.S. Customs Service for nearly 10 years.

Mr. Chairman, with me today are William von Raab, Commissioner of Customs, key staff members of his staff, whom he will introduce at the outset of his remarks.

The fiscal year 1985 request for the U.S. Customs Service is $602,405,000 and 12,369 average positions. The fiscal year 1985 budget for the Customs Service reflects the policies of this administration to control Government spending, reduce crime, increase operating efficiency and effectiveness, and improve responsiveness to the private sector.

The Customs Service has one of the most diverse and challenging missions in the Federal Government. It is a law enforcement agency with a critical role in enforcing our laws involving narcotics interdiction, investigation of currency violations, commercial fraud and other trade violations, and the illegal exportation of critical technology. It is also responsible for enforcing this Nation's complex tariff laws and regulations for the collection of duties and the processing of passengers and vast quantities of imported merchandise.

This is a bureau of which I am very proud, both for its regulatory accomplishments and for its enforcement initiatives, which are critical to the President's program to combat crime in this country.

ENFORCEMENT

The Enforcement Program of the U.S. Customs Service includes:

Participation in the President's organized crime and drug enforcement task forces.

A critical role in the national narcotics border interdiction system [NNBIS] under the Vice President.

Air and marine drug interdiction programs.

Operation Exodus—the program to prevent the flow of technology to Soviet bloc countries.

Financial investigations under the Bank Secrecy Act.

Operation Tripwire, a new effort to enhance Customs' investigation of commercial fraud.

The Customs Service plays a vital role in the administration's efforts to stop drug smuggling. Commissioner von Raab will provide you with some statistics which I think you will find interesting.

Its financial investigations, in the Customs Service, have resulted in the destruction of a number of major drug trafficking and money laundering organizations, and under Operation Exodus, Customs has increased its seizures of critical technology. In addition, Operation Tripwire is showing great promise in expanding Customs' ability to uncover a wide spectrum of fraudulent commercial activity.

To support Customs' highly sensitive enforcement mission, $5.7 million is being requested in the budget for a radio voice privacy system. Requests from the field have confirmed that unauthorized monitoring of radio communication used in Customs enforcement activities is routinely occurring, putting officers' lives and the success of operations in jeopardy. Therefore, voice privacy was identified as the No. 1 communication priority, and its nationwide implementation is a major Customs goal. I urge you to approve this request.

In its operational and regulatory programs, Customs is continuing to increase its efficiency and reduce regulatory burdens on the importing community.

Because the volume of cargo entries has grown substantially in recent years, the Customs Service has been developing an automated, integrated system for processing entries and performing related regulatory functions, including data collection, revenue collection, and administration of bond requirements.

This automated commercial system, or ACS, will enhance enforcement by emphasizing selectivity in determining which importations should receive intensive examination. It will identify those entries that have the most potential for classification changes by import specialists, resulting in increased revenue collection.

Overall, the system will expedite entry processing while concentrating limited resources on potential problem entries. A component of ACS known as the automated broker interface [ABI], together with an integrated data base, will eliminate the need for Customs to key redundant data while paving the way for paperless entry. ABI will allow the automated brokers, who will eventually handle 80 percent of entries processed, to submit entry documentation through an automated interface to the Customs entry processing system.

Customs has begun to implement the automated commercial system this fiscal year. This improvement will provide cost savings for Customs and the broker community by reducing reliance on manual procedures. This budget request would provide for $8.8 million in additional funds for the ACS effort.

Customs also plans to improve its telecommunication network which will be beneficial to its enforcement mission as well as its commercial activities. Currently the U.S. Customs Service has two independent telecommunications systems: one supporting the Treasury enforcement communications system [TECS] by providing an essential information data base for enforcement priorities, and the other supporting the commercial and administrative systems, which help to protect the revenue while facilitating international trade.

Because the networks were designed and developed independently of each other, there is incompatability and redundancy. In addition, both use technology that is becoming obsolete. While updating both systems to take advantage of the latest technology, Customs will also consolidate both networks, thereby reducing the costs and improving operations through more efficient use of computer resources. Customs is requesting $2.5 million in additional funds for this request.

AIR PROGRAM

In enforcement, major drug seizures are being made through the Customs Air Program. Customs air interdiction strategy is designed to apprehend persons involved in the smuggling of contraband by air while also providing assistance to all other interdiction efforts.

The President's budget requested that $17 million be appropriated for the Air Program, and at the same time Treasury requested support of $11 million from the Department of Defense for the operation and maintenance of military aircraft that have been made available to Customs.

As you know, the Department of Defense has advised that they will not be able to provide the requested support. Secretary Regan previously stated to this committee, "If reimbursement is not forthcoming, we will try to identify moneys within Treasury's request to fund this cost."

We are examining alternatives for funding the $11 million. Furthermore, there has been a recent decision that Customs will fund the third aerostat balloon for fiscal year 1985 to provide radar coverage of traffic coming from the Bahamas. This cost will be approximately $4 million. We are seeking sources of funding for the $11 million denied by the Department of Defense and the $4 million for the aerostat balloon, we will request a budget amendment.

The administration and the Department's dedication to the Air Program is firm. The 1985 budget requests, in conjunction with enhancements taking place as the result of resources provided in 1984, will enable us to do more detection, interdiction, and apprehension of smuggler aircraft than we have ever done in the past.

LAW ENFORCEMENT

Although Customs is reducing its overall work force, we nevertheless intend to continue to make real progress in achieving President Reagan's priorities in law enforcement. We intend to move forward on all fronts while providing the American public with a fully modern Customs Service.

Mr. Chairman, in addition to my prepared remarks, I would just comment that I realize from the statements that you and Senator DeConcini have made that there is a dissatisfaction with the Customs budget presentation, but I must point out a number of steps that this administration has taken in the drug area which I think are very positive and speak well for the President's commitment to the drug effort. Among them, let me just tick off the FBI–DEA consolidation and the inclusion of the FBI as an agency dedicated to the drug effort.

The south Florida task force under the guidance of the Vice President, and the infusion of tremendous resources in the whole criminal justice system in Florida was created primarily to go after the drug problem. The creation of NNBIS, or national narcotics border interdiction system, is a major effort to consolidate the activities of about five Cabinet departments and the intelligence community in efforts to interdict drugs. The creation of 12 organized crime drug enforcement task forces to go after the major organizations involved in smuggling and dealing in drugs in this country. The passage as a bipartisan effort of the posse comitatus legislation which has made additional military resources available to the Customs Service, the Coast Guard, and to other drug enforcement agencies in the effort to interdict drugs.

The creation of some 30 financial task forces manned primarily by IRS and Customs. The reprogramming within Customs of a lot of a lot of additional agents and patrol people, all aimed at the drug effort.

I just thought I would mention these facts. In conclusion, Mr. Chairman, I want to thank you and Senator DeConcini and this subcommittee, for the efforts that you have made on behalf of the Customs Service, and also to aid in the administration's drive against drugs.

Thank you.

PREPARED STATEMENT

Senator ABDNOR. We will insert your prepared statement in the record at this point.

[The statement follows:]

STATEMENT OF ROBERT E. POWIS

I am pleased to appear before you today in support of the annual appropriation request of the U.S. Customs Service for fiscal year 1985.

Mr. Chairman, with your permission, before I begin, I would like to take a moment to give recognition, on behalf of the Treasury Department, to the contribution of Inspector Richard M. Latham, who was killed on January 27, 1984, in the line of duty when he discovered a smuggling attempt by four persons at Del Rio, Texas. Inspector Latham was a highly respected and dedicated employee who had served with the U.S. Customs Service for nearly 10 years.

Mr. Chairman, with me today are William von Raab, Commissioner of Customs, key staff members of the U.S. Customs Service, and Arthur D. Kallen, Director, Office of the Department of the Treasury's Office of Budget and Finance.

The fiscal year 1985 request for the U.S. Customs Service is $602,405,000 and 12,369 average positions. The fiscal year 1985 budget for the Customs Service reflects the policies of this Administration to control government spending, reduce crime, increase operating efficiency and effectiveness and improve responsiveness to the private sector.

The Customs Service has one of the most diverse and challenging missions in the Federal government. It is a law enforcement agency with a critial role in enforcing our laws involving narcotics interdiction, investigation of currency violations, commercial fraud and other trade violations, and the illegal exportation of critical technology. It is also responsible for enforcing this nation's complex tariff laws and regulations for the collection of duties and the processing of passengers and vast quantities of imported merchandise.

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The enforcement program of the U.S. Customs Service includes:

-- Participation in the President's Organized Crime and Drug Enforcement Task Forces.

-- A critical role in the National Narcotics Border Interdiction System (NNBIS) under the Vice President.

-- Air and Marine Drug Interdiction Programs.

-- Operation Exodus - The program to prevent the flow of technology to Soviet-Bloc countries.

-- Financial investigations under the Bank Secrecy Act.

-- Operation Tripwire, a new effort to enhance Customs' investigations of commercial fraud.

The Customs Service plays a vital role in the Administration's efforts to stop drug smuggling. Hard drugs seized in FY 1983 exceed by a wide margin the amounts seized during all of 1982. Customs seized over 593 pounds of heroin in FY 1983, more than double the 1982 total. Cocaine seizures are also at an all-time high, with 19,600 pounds seized. This amount exceeds the 1982 total by 76%. Customs has also had a successful year in its other major enforcement initiatives. Its financial investigations have resulted in the destruction of a number of major drug trafficking and money laundering organizations, and under Operation Exodus Customs has increased its seizures of critical technology. In addition, Operation Tripwire is showing great promise in expanding Customs' ability to uncover a wide spectrum of fraudulent commercial activity.

To support Customs' highly sensitive enforcement mission, $5.7 million is being requested in the budget for a Radio Voice Privacy System. Requests from the field have confirmed that unauthorized monitoring of radio communication used in Customs enforcement activities is routinely occurring putting officers' lives and the success of operations in jeopardy. Therefore, Voice Privacy was identified as the number one communication priority, and its nationwide implementation is a major Customs goal. I urge you to approve this request.

In its operational and regulatory programs, Customs is continuing to increase its efficiency and reduce regulatory burdens on the importing community.

Because the volume of cargo entries has grown substantially in recent years, the Customs Service has been developing an automated, integrated system for processing entries and performing related regulatory functions, including data collection, revenue collection and administration of bond requirements. This Automated Commercial System, or ACS, will enhance enforcement by emphasizing selectivity in determining which importations should receive intensive examination. It will identify those entries that have the most potential for classification changes by import specialists, resulting in increased revenue collection. Overall, the system will expedite entry processing while concentrating limited resources on potential problem entries. A component of ACS known as the Automated Broker Interface (ABI), together with an integrated database, will eliminate the need for Customs to key redundant data while paving the way for paperless entry. ABI will allow the automated brokers, who will eventually handle 80 percent of entries processed, to submit entry documentation through an automated interface to the Customs entry processing system.

Customs has begun to implement the Automated Commercial System this fiscal year. This improvement will provide cost savings for Customs and the broker community by reducing reliance on manual procedures. This budget request would provide for $8.8 million in additional funds for the ACS effort.

Customs also plans to improve its telecommunication network which will be beneficial to its enforcement mission as well as its commercial activities. Currently the U.S. Customs Service has two independent telecommunications systems: one supporting the Treasury Enforcement Communications System (TECS) by providing an essential information database for enforcement priorities, and the other supporting the commercial and administrative systems, which help to protect the revenue while facilitating international trade. Because these networks were designed and developed independently of each other, there is incompatability and redundancy. In addition, both use technology that is becoming obsolete. While updating both systems to take advantage of the latest technology, Customs will also consolidate both networks, thereby reducing the costs and improving operations through more efficient use of computer resources. Customs is requesting $2.5 million in additional funds for this budget.

AIR PROGRAM

In enforcement, major drug seizures are being made through the Customs air program. Customs air interdiction strategy is designed to apprehend persons involved in the smuggling of contraband by air while also providing assistance to all other interdiction efforts.

The President's budget requested that $17 million be appropriated for the air program, and at the same time Treasury requested support of $11 million from the Department of Defense for the operation and maintenance of military aircraft that have been made available to Customs. As you know, the Department of Defense has advised that they will not be able to provide the requested support. Secretary Regan previously stated to this committee, "If reimbursement is not forthcoming, we will try to identify monies within Treasury's request to fund this cost." We are examining alternatives for funding the $11 million. Furthermore, there has been a recent decision that Customs will fund the third aerostat balloon for FY 1985 to provide radar coverage of traffic coming from the Bahamas. This cost will be approximately $4 million. We are seeking sources of funding for this project within the Department's 1985 budget submission. When we have identified the sources of funding for the $11 million denied by the Department of Defense and the $4 million for the aerostat balloon, we will request a budget amendment.

The Administration and the Department's dedication to the air program is firm. The 1985 budget requests, in conjunction with enhancements taking place as the result of resources provided in 1984, will enable us to do more detection, interdiction and apprehension of smuggler aircraft than we have ever done in the past.

Although Customs is reducing its overall workforce, we nevertheless intend to continue to make real progress in achieving President Reagan's priorities in law enforcement. We intend to move forward on all fronts while providing the American public with a fully modern Customs Service.

Mr. Chairman, this concludes my opening statement. I will now ask the Commissioner of Customs, Mr. William von Raab, to provide you with his prepared statement, and we will then be pleased to respond to questions you or other members of the Committee may have.

CONSOLIDATION

Senator **Abdnor**. Thank you, Mr. Powis. We know what you say. There is a lot of fact to it, and we appreciate the great emphasis the administration is putting into many areas. It is just that we think we have a long way to go in the problem Customs and the other law enforcement areas deal with.

Part of the problem that disturbs me is the fact that I watch—and it is not a jealousy at all. If I could figure out one way to consolidate around here that would really improve our program, I am all for it. You are not going to find any jealousy over jurisdiction with this chairman or this committee.

It does bother me that these other agencies in law enforcement are being increased consistently, and we have to fight like blazes to take care of what I think is a frontline part of much of the problem our country is facing, with the smuggling and what is coming into our country of both drugs and other illegal things.

This is no time to let up, and I can't understand how they think they can offset it by consolidation, or even automatic equipment, and I think that is fine. We are for automated systems and your radio privacy. I am all for that, and I think it is great, and I am pleased to hear that we are putting in $11 million. I think we could have helped the Treasury Department figure that out earlier if they had taken the trouble to consult with us, because we agreed to that. We told the Defense Department, "You give us the equipment and we will take care of it." I don't know who fell down on this, but it didn't shock us at all to find out that it wasn't going to work that way, and we are happy to see you doing this.

My only hope is that all these extra dollars we are now talking about are not going to come out of some area of law enforcement. I don't know where they are going to come from, but I want to say we do know you are doing a good job, but it does take dollars and manpower to do some of the things we have to do, and I realize we are all pinching the dollar trying to make it go as far as it can, and I don't take a back seat to anyone when it comes to trying to cut spending. But I never have gone for the cutting in law enforcement that I think is so important.

After that trip, one of the few I have made since I have been in Congress—I went around the world and checked on some of these drug producing countries. We have a big part to play in this. In some of those countries they are doing a better job of law enforcement than we are doing over here. And that is fine. We don't want it to come into this country, but we are going to have to be ready to fight it, and that is why we feel so strongly. We are not here to pick on anyone.

We just want to see a good job being done, and we don't think you can do it by cutting manpower and cutting the dollars, and I guess that is where we are coming from.

These people do a great job in Customs, and our heart goes out to Mr. Latham's family when he is killed like this. Their lives are on the line every hour they are out working, and we want to make it as safe as we can and still be as effective as we can.

That is all, and we thank you for your statement.

Senator DeConcini?

Senator DECONCINI. Thank you, Mr. Chairman. No questions.

Senator ABDNOR. So, with that, we will call on our Commissioner von Raab. We have had him before us before, and I am sure he is ready to talk to us a little today.

OPENING REMARKS OF MR. VON RAAB

Mr. VON RAAB. Mr. Chairman and Senator DeConcini, it is always a pleasure to appear before your committee. Had I known of the depth of knowledge and wisdom that the two of you have of the Customs Service at my first appearance here, I would have probably never shown up, but you make me a little nervous. Then when I see Ted Meihle, Bill Lawrence, Bobby Mills, and Chuck Parkinson up there, I am absolutely trembling from the amount of information that you all have.

But we appreciate the good going over that you always give us, because I think it leads to better decisions.

Let me first introduce some of the members of my staff who are here with me. On my immediate left is Bill Russell, who is our Comptroller, and on his immediate left is Frank Brennan, who is the head of our Office of Duty Assessment, and on Bob Powis' right is George Corcoran, head of our Office of Enforcement, and on his right is Gene Mach, head of our Office of Inspection and Control.

The Customs Service for its fiscal year 1985 appropriations request, is asking for $602,405,000 and 12,369 direct average positions. This total includes $585,335,000 for our regular appropriation and $17,070,000 for operation and maintenance of Customs air programs.

In line with President Reagan's efforts to lower the cost of our Government, our fiscal year 1985 appropriation request is $23,499,000 less than our requested level for fiscal year 1984.

In our fiscal year 1985 request, we have included $16,994,000 for program enhancements and other initiatives. These are primarily for ongoing automation programs and for projecting the communications of our law enforcement officers. Also included is $35,134,000 for increases necessary to maintain current operating levels, and program reductions and nonrecurring expenses of $75,627,000.

As we stated on previous occasions, Customs continues to adhere to President Reagan's program for strenghtened law enforcement and better management of Government resources. Accordingly, Customs objectives are to implement the following:

Increase staff productivity by developing and implementing automated systems, wherever possible, in all merchandise, revenue collection, and enforcement processing;

Reduce administrative inefficiencies by consolidating functions and organizations, eliminating duplicative activities and unneeded paperwork and forms, and simplifying internal and external processing procedures; and

Improve overall enforcement efforts, particularly Customs air interdiction, against all illegal activities and smuggling by private aircraft.

In fiscal year 1985, Customs is continuing, on a high priority basis, to press forward on long-awaited and much-needed reform of commercial practices—in essence, how we implement the tariff laws and how we process the vast quantity of imported merchandise.

In meeting our goals in commercial processing, we are pushing forward determinedly with centralization, automation, and streamlining of all applicable operations.

The initiatives in this budget emphasize the development and implementation of the Customs automated commercial system, which is the key program in this effort. Phase I of system development was completed in December 1983, and it was already operational nationwide on February 1, 1984. This system, when fully implemented, will revolutionize the way people do business with Customs. It will speed up processing and reduce operational costs for both Customs and the international trade community.

Simplification of forms, paperwork, and procedures will reinforce automation and help to speed up the cargo clearance process. We have underway a major project to consolidate our data processing functions into a single computer environment. We believe it will eventually permit us to dramatically improve Customs import processing and implement new methods of collecting duties.

DRUG ENFORCEMENT

With regard to drug enforcement, fiscal 1983 was a banner year. The President's drug strategy is working, and the amounts of heroin and cocaine seized last year set new records. Heroin seizures reached 594 pounds, up 105 percent over the previous year. These results largely reflect intensified inspections at airports, especially in cargo, as well as the development of improved inspectional techniques.

Similar results have been achieved with regard to cocaine smuggling. I am proud to commend Customs enforcement groups for the outstanding results produced during the past 3 years.

In fiscal year 1982, we seized 11,150 pounds of cocaine, an increase of more than 200 percent above the previous year. And in fiscal year 1983, seizures reached 19,602 pounds, more than 400 percent above fiscal year 1981 and 76 percent over the previous record year of fiscal year 1982. In terms of disruption of organized smuggling groups, we have taken off the streets $5.3 billion of cocaine sales and prevented these criminals from pocketing the profits.

Many of the seizures, especially cocaine, resulted from increased interdictions by Customs Air Program. The Customs Service, supported by the Treasury Department and this administration, are fully committed to maintaining an effective air interdiction effort in fiscal year 1985. In order to achieve this goal, Customs is currently reviewing ways to improve and increase the effectiveness of available resources.

In fiscal year 1985, a full test of the P-3A aircraft will be undertaken as soon as possible after its delivery. We anticipate completing the test and evaluation by November 1984.

Furthermore, a budget amendment will be requested that will include $4 million for the operation in 1985 of the Bahamas aerostat, and $11 million to replace the moneys originally requested of DOD for logistic support.

Two actions already undertaken yesterday will certainly improve our effectiveness. The contract has been awarded for four Cessna Citation interception aircraft, and a contract has been awarded to T-COM Co., for the installation and operation of the Bahamas aerostat.

Border interdiction and surveillance efforts will be enhanced by better coordination with DOD. The review of NNBIS of border interdiction efforts and the availability of increased radar information and systematic reporting should increase our overall capabilities. Furthermore, the NNBIS Joint Surveillance Committee will study long-term surveillance problems to determine the best approach for improving the detection of smuggler planes.

SPECIAL OPERATIONS

Customs efforts against the drug smugglers have been only a part of our law enforcement programs. President Reagan has also called on us to shut the open door through which the Soviet Union is obtaining critical technology. The Customs Service has responded, on a priority basis, with the highly successful program we call Operation Exodus.

This past year has seen us further perfect our investigating methods and bring more violators of U.S. exports laws to justice. Recently, we concluded a rather spectacular investigation which received worldwide media coverage, of an illegal technology transfer with the return from Germany and Sweden of two large shipments of highly advanced computers that would have given Soviet weapons systems a technological boost the West just cannot afford.

Another high priority investigative and detection effort begun this year and planned for expansion in fiscal year 1985 is Operation Tripwire, a Customs enforcement program directed to commercial fraud. The program this year is zeroing in on all types of fraud, primarily in steel, electronics, textiles, and other American industries hard hit by fraudulent trade practices. The operation is intended to strictly enforce laws against financial fraud, pirating, quota evasion, and other types of fraud that now reach an estimated $1.6 billion a year.

In fiscal year 1984, Customs has implemented an electronic case tracking system, set up integrated fraud teams in 40 districts, and established a full-scale training program for improved fraud identification. The program has proved effective, and willbe supported fully in fiscal year 1985.

Although we are reducing our budget and our work force, Customs remains committed to a strong enforcement posture, to improved cost effectiveness, and to better service the American public though a more modern Customs Service.

Mr. Chairman, this concludes my introductory statement. I will be happy to answer your questions and those of the other members of the subcommittee.

PREPARED STATEMENT

I also have a longer statement, Mr. Chairman, that I would like to submit for the record.

Senator ABDNOR. Without objection, your longer statement will be made a part of the record.

[The statement follows:]

STATEMENT OF WILLIAM VON RAAB

Mr. Chairman and members of the committee: We appreciate this opportunity to appear before you today to present the fiscal year 1985 appropriation request of the U.S. Customs Service. We are requesting $602,405,000 and 12,369 direct average positions. This total includes $585,335,000 for our regular appropriation, and $17,070,000 for operation and maintenance of Customs air program.

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Although, we are reducing our budget and our workforce, Customs remains committed to a strong enforcement posture, to improved cost-effectiveness, and to better service the American public through a more modern Customs Service.

Mr. Chairman, this concludes my introductory statement. I would be happy to answer your questions and those of the other members of the subcommittee.

CUSTOMS AIR PROGRAM

Senator **Abdnor**. With that, we thank you, Commissioner, for your very comprehensive statement. I agree with what you said, and we are very proud of the work that you are doing. We just don't want it to become less is all, and we want to continue on that same and even greater level.

You have made great strides this year, as you say. The interdiction has doubled in many areas, and we think that is great, and the start of it all, and that it has to continue.

I do want to say for the record one thing, Commissioner. I caught that statement where I think you said you are leasing those four airplanes that we had approved earlier. Personally, I don't like this sole source contract that you apparently entered into, but I think it is very, very important. I know that the funds are coming, and that you want to get going with it, and so I guess I am not going to voice any great objections to that formally, but I really don't approve of it, and I hope that it makes it a little easier knowing that your amendment, Senator DeConcini, for eight new planes has gone through, and those will be put out on a competitive bid.

Mr. **von Raab**. Mr. Chairman, we, too, are aware of the sensitivities involved in sole source procurement. Let me assure you that I have gone to great lengths, and so have my comptroller and chief counsel, to review all the particulars of the procedures that we followed, and I would be more than happy to sit down with you, either publicly or privately, and go over everything. I have tried to keep your staff and Senator DeConcini's staff fully briefed on this matter, but we did do this to some degree in the interests of getting planes in the air as soon as we could, and I appreciate your concerns.

Senator **Abdnor**. Getting them in the air is what we all want and maybe that is why we are not saying much. We do want to see this happen, and we know you are doing your very best.

Going back to this whole thing, we just want you to continue as you are doing, and even better. That is why we are interested.

EMPLOYMENT LEVEL

What is the current authorized employment level?

Mr. **von Raab**. Our current authorized nonreimbursable employment level right now is about 12,800 positions.

Senator **Abdnor**. That is authorized. Now, what do you actually have? What is the current level?

Mr. **von Raab**. We have 221 people less than that, which would be 12,661.

Senator **Abdnor**. This 221, are those mostly clerical, or inspectors, or what?

Mr. **von Raab**. The inspectors right now are 4,289.

Senator **Abdnor**. Yes?

Mr. **von Raab**. You want the total breakdown?

Senator ABDNOR. No, no; I want to know of the 221, are any of them inspectors?

Mr. VON RAAB. How many vacancies?

Senator ABDNOR. No; you are 221 under your authorized numbers. Of those 221, you left somebody out.

Mr. VON RAAB. The problem with our budget is that we have an authorized ceiling and then a funded ceiling.

Senator ABDNOR. Yes.

Mr. VON RAAB. We are actually above our funded ceiling right now, and so we are trying to get down to our funded ceiling. There are a number of positions that are authorized for hiring in the Customs Service, but at this time we cannot hire them all.

Senator ABDNOR. All right. We will try to figure that out, I guess, with the numbers and dollars in the House.

Nevertheless, out of that 2,000 proposed reduction last year, I think we went along with 400, did we not? In addition to that, we are another 221 under that, so we are really starting out talking, in this year, about 600 or more fewer employees than we had the previous year to start with, before we ever talk about reducing further.

Now, I think the inspection and control is slated for a 415-slot reduction. Do you agree with that? I don't know whether we picked that up in testimony—no, it is in the budget. I think that was your budget figure. What position types are included in this, and how many of these positions are inspectors?

Mr. VON RAAB. There are 415 inspectors. The positions are inspectors.

INSPECTOR TRAINING

Senator ABDNOR. How long have you been training these people? Most of your inspectors, what kind of training do they go through? It is pretty intense, isn't it, before you let them go out on the frontline as inspectors?

Mr. VON RAAB. We think it is a good training program. I would like to ask Mr. Mach to comment on that. We have recently emphasized training and have developed some new techniques. I think it might be interesting for your committee to hear about it.

Senator ABDNOR. I would like to. Mr. Mach?

Mr. MACH. Thank you. We have a 7-week training program at Glynco, GA., the Federal Law Enforcement Training Center, for every inspector before he or she becomes a frontline officer. They must complete the course satisfactorily before they can work as a frontline officer.

Now, most recently, we have attempted other kinds of training, using observational techniques and stress analysis, techniques already in use at airports. In fact, this week we are extending these techniques to the border ports, to try to make inspectors more mobile, rather than standing and waiting for people to come to their station. They will rove about observing passengers as they pick up their baggage and vehicles as they arrive at the border. We find this to be much more efficient.

Senator ABDNOR. May I interrupt you there?

Mr. MACH. Yes, sir.

Senator ABDNOR. There is nothing, there isn't any kind of equipment possible in the way of automatic equipment that could ever do that, other than the individual, is there?

Mr. MACH. The individual is important, yes. We do assist them with enforcement lookout systems and the like, automated license plate readers; and passport readers. This type of equipment will expedite the acts of——

Senator ABDNOR. But it will never take the place of an inspector, the work he has to do. I am sorry to interrupt you.

Mr. MACH. As I said, the observational profiles and the stress analysis are new types of training that we have gone into. It has been expanded to all airports, and this week we are going to all the major border crossing points, both on the northern and southern borders.

BUDGET REDUCTIONS

Senator ABDNOR. I guess, Commissioner, going back to our original question, there are 415 individuals listed. How many total inspectors do you have?

Mr. VON RAAB. Just about 4,200 now.

Senator ABDNOR. So we are dropping off 10 percent.

Mr. VON RAAB. That is about right, yes.

Senator ABDNOR. And that is in addition to what you might have lost prior to that time. I am sure you made some great efficiency moves to offset the numbers you dropped in the previous term.

So my point is, there has to be a point of no return in efficiency, and we are awfully concerned at a time when we think it is more and more necessary for more bodies to do the checking. We know how risky it is, and we talked about Mr. Latham. We need more, instead of fewer. This is what disturbs us, I think, so greatly.

Let me ask you this: The budget presentation that you proposed proposes program reductions of almost $76 million. There was a net change of minus $23.5 million, with a restoration—if we were to put $23.5 million back, would we be going at the same levels we are going at now?

Mr. VON RAAB. Well, the $23 million figure is the difference in the level of the fiscal year 1984 budget and the proposed budget of 1985. This figure basically equals maintaining current level costs, which are uncontrollable expenses that Customs must pay, and that is $35 million.

Senator ABDNOR. Maybe I had better word it this way.

Mr. VON RAAB. So $35 million is basically the figure in the budget to "maintain operating levels."

Senator ABDNOR. $35 million?

Mr. VON RAAB. Right, and to restore all positions and maintain current operating levels, it would be $56 million.

Senator ABDNOR. That is the figure I want. It would keep us right where we are.

Senator DeConcini?

INSPECTOR REDUCTION

Senator DECONCINI. Mr. Chairman, thank you. I am sure you have more questions, but going back to these inspectors, Commissioner, Secretary Regan testified that the 452 positions cut would not cut law enforcement or drug enforcement, since they were going to be made in areas where activities were low and in ports where the drug threat was less active.

We did some checking and found that 149 of these 452 inspectors would be taken at airports, and 99 at seaports. Among the airports that would be hit by these cuts in their inspection work force are the following: JFK in New York, 28 inspectors; Miami International, 12 inspectors; Los Angeles, 14 inspectors, and Honolulu. It seems to me there is a great misunderstanding, perhaps, on the Secretary's feeling of importance here, and maybe it is because he hasn't been briefed.

I would hardly say that these airports are places where drug trafficking is at a low level, or where there is little activity.

Add to this your plan to cut 10 inspectors in the New York seaport, and it is clear to me that the Secretary's assessment of the situation just doesn't jibe with the facts. My question to you is, Do you really believe that a cut of 452 inspectors will have no effect on our drug interdiction efforts at these and other major ports of entry where narcotic trafficking is so severe?

Mr. VON RAAB. You have more numbers than I. However, any numbers that may have been generated with respect to specific inspectional cuts have not been approved.

At this time I want to make sure that when we decide on these adjustments that they are consistent with the Secretary's promise that they are not in high-risk areas. I would certainly agree with you that some of the proposals that you have identified, which I guess are preliminary staff suggestions, I honestly have not fully reviewed them, and they probably do not make sense.

Senator DECONCINI. That is encouraging, and my information could be premature. It is encouraging to realize that you are not necessarily endorsing that and will reassess it, because, you know, I want to believe the Secretary when he testified that these inspectors are not going to affect the Drug Interdiction Program, and maybe it is possible to do that.

MARINE PROGRAM

Secretary Regan also testified before our subcommittee that the Marine Drug Interdiction Program was not being cut back, and that the only cuts were the 42 marine officers who were no longer needed.

Senator Chiles, who can speak for himself, pointed out to him that in fact the Marine Drug Interdiction Program was being cut back by $640,000, or 32 percent. A quick look at the Customs budget justification points out that the Secretary was confused about what was really happening to the Marine Drug Interdiction Program. OMB also knocked out $8.6 million, for 10 marine drug interdiction modules along the southern coast of our Nation.

The proposal by the Senator from Florida, Senator Chiles, and myself—our budget plan—puts this money back in to establish these marine drug interdiction squadrons in 10 cities.

Now, if Treasury is so concerned about drug interdiction, why are they cutting $640,000, or 32 percent, from the Marine Program?

Mr. VON RAAB. Well, first of all, we should not include the 42 marine officers as part of the Marine Program. They are inspectional personnel. The actual reduction that has been made in the Customs Marine Program is $200,000, and those savings will be achieved by disposing of some of our older, less seaworthy vessels. The other $440,000 is a change in our special operations budget in which we would be more selective in the way that we would run our special operations.

The $8.6 million is really not fair, I think, to characterize as a reduction, because it was an initial budget proposal.

Senator DECONCINI. Excuse me, Mr. Commissioner. I said that OMB knocked that out, not you.

Mr. VON RAAB. That is correct, that is right.

Senator DECONCINI. So the point that I am trying to get on the record—and I understand it is difficult for you to do this—is that it was a very unwise decision by OMB, particularly in light of what the Secretary testified about the Marine Drug Interdiction Program. I believe we ought to reinstate these 10 marine drug interdiction modules.

Do you have any comment, or do you want to pass? If you want to pass, I understand.

Mr. VON RAAB. OMB has in hand a lot more information than I have in terms of the overall governmental effort, and——

Senator DECONCINI. I know this puts you in an awkward position, and also Mr. Powis, but the point that I am trying to make is that the Secretary comes here and your budget comes here and the statement is all about how we are not jeopardizing our Drug Program, and yet the budget is clearly doing just that in the Marine Drug Interdiction Program and, in my judgment, through the potential loss of these inspectors. I can't help but disclose to you my real apprehension about the ability to do the job you are going to do.

Now, I would like to ask another question.

AIRCRAFT/RADAR

As you know, the Air Force has been directed by the Congress and the President to modify three more P-3's with F-15 radar in fiscal year 1985, and two more in fiscal 1986. You can be sure I will recommend to our Defense Appropriations Committee language that will make sure the Air Force commitment to modify and turn over these P-3's continues. The chairman made reference to this earlier.

What is your latest agreement on the P-3's, regarding the schedule for the Air Force to modify and turn over to Customs the three P-3 aircraft next year?

Mr. Powis. Well, Senator, I think there is a contingency there in terms of how the test goes of the P-3 that is being modified now. If the test is unsuccessful, I think that certainly we will be coming to you and talking to Defense in terms of where do we go from here and what do we do with any funds in the 1985 budget.

Senator DeConcini. Now, the F-15 has been tested. I was at one of those tests and, you know, I believe Customs was very satisfied. Being a lay person, I took their word for it, along with the Air Force. They were very enthusiastic about it. So the F-15 radar is tested. Now, all we have to finish testing is the P-3's ability to carry it.

Mr. Powis. That is correct, does it work in the everyday world mounted on the aircraft.

Senator DeConcini. When is that to be completed?

Mr. Powis. As far as I understand, that is to be completed at the end of November of this year, 1984.

Senator DeConcini. That is a long time away. Do you know of anything that can be done to accelerate that time schedule?

Mr. Powis. We have had conversations with the Commissioner, with Customs. We have also had an interest in speeding up that schedule. I think one of our problems is that we want to make sure that it gets a fair test, and the reading we get is that if we try to hurry up the testing procedure, we may not be getting the best kind of reading.

The people who run the program in Customs have indicated that we are better off going with that November 30 schedule.

Senator DeConcini. Mr. Chairman, I have other questions, but you yielded to me, and I know the Senator from Florida has some questions, and has a time conflict.

Senator Abdnor. We have been joined by Senator Chiles, who used to be chairman of the appropriations subcommittee.

Senator Chiles. Thank you very much, Mr. Chairman. I appreciate the courtesy that you extend to me to ask a few questions.

DRUG SMUGGLING AT MIAMI AIRPORT

Mr. von Raab, the Miami Herald today carried the story of the major indictments, the major drug-smuggling operations, at Miami International Airport. The indictment of 29 people, including two Customs inspectors, 10 skycaps, a Customs inspector's wife, and several narcotics couriers. It sounds like there was a tremendous operation going on there with people being involved in that. I notice that you are quoted in that story that so many of these people could easily become involved in smuggling drugs "indicates to me that fundamental changes must be made in the security at Miami International and other airports around the country."

Is that a correct quote?

Mr. von Raab. Yes, it is. We have been having discussions with the airport authority in Miami and, first, let me say that although we started off 2 years ago in a sort of adversarial relationship with Vic Judy, we have gotten pretty good cooperation from Miami Airport, with very few exceptions.

However, one of them is the access of the porters, or permission for the porters to go into the customs area to handle baggage before it has cleared customs. We have been discussing this matter, so far unsuccessfully—we hope more successfully as a result of this particular operation—to limit the access of porters in some airports to the customs area.

Because what they basically were doing was to get four or five suitcases owned by a respectable, upstanding citizen and put in with those suitcases the suitcase of a smuggler, since most tourists don't pay that much attention as long as their luggage is there, and slide that by one of the bad inspectors.

Thus, it was their access to the security areas to which I was referring.

This situation exists in a few other international airports, and it is just one of those balances of interest that Customs and airport authorities have to deal with. We will be discussing this matter again with Miami, but I don't want to leave the impression that Miami is not a good, responsive airport, although we still have a few points of disagreement of which this happens to be one.

Senator CHILES. I understand the problems involved, because of the amounts of moneys that we are talking about here, and you are always going to have problems with your own people as well as others.

CUSTOMS-INS CONSOLIDATION

This makes me look with some alarm at the proposed Customs-INS consolidation of the border control functions. Here we are finding the administration has this proposal to accomplish this transfer, and INS would receive 622 Customs inspectors, and 165 Customs patrol officers. The Customs Service is going to receive 505 INS inspectors, so Customs is the loser by 282 positions.

I don't think it is any secret that INS has been considered historically to be one of the worst-managed agencies in the Government, and at the time when the number of legal and illegal immigrants flooding the United States is greater than ever before, most of the INS records are still kept by hand in torn manila folders stuffed into old-fashioned filing cabinets. It is the one office that we can't get a congressional answer from. They don't even answer us because they are so far behind.

Now, similar comparisons would be if the Internal Revenue Service would try to do its work using quill pens and ledgers. How can you, as Commissioner of the Customs Service, endorse a 282-person cut on top of the 400 positions Customs lost in 1984, and the proposed cut of 954 positions in 1985? How can we afford to lose another 282 and, just on top of that, we know that the Customs people are trained in their ability to try to intercept and interdict drugs. They have had the experience in it.

INS has basically been looking for one thing, and that is illegal aliens, so they don't have that training. So what is going to happen when we just change these provisions and have this cut in men?

Mr. VON RAAB. The 200 net is not a loss of personnel to the Federal Government. For the most part the same individuals will be in the same physical locations doing more or less the same job, only in some cases under a different supervisor. It wouldn't be fair to characterize it as a loss of manpower.

Senator CHILES. Mr. von Raab, this administration is supposed to be committed to the war on drugs. It seems to me that the agency with the best trained soldiers for interdicting drugs is being taken out of the border war and replaced by an agency that has contributed very little to the narcotics effort.

Do you believe, do you really believe, that this consolidation won't damage our ability to interdict drugs?

Mr. VON RAAB. We believe that the training that will be undertaken, some of which already exists because there is already a program for cross training of INS and Customs officers, will make up for any possible changes that would take place in their responsibilities.

Senator CHILES. I notice you use the term "we" there. That is a broader term than "I." Do "we" also believe in the tooth fairy?

Mr. VON RAAB. No; I don't believe in the tooth fairy, nor do I believe that we believe in the tooth fairy.

Senator CHILES. Well, Mr. von Raab, you do a heck of a good job of saying a $680,000 cut is only a $200,000 cut, and 400 something men is only a reduction of so much, but it seems to me this speaks for itself.

You are transferring and giving duties over to people who have had nothing to do with interdicting drugs. There is going to be a net reduction in personnel in connection with that, and when you see a situation like we see at the Miami Airport, and that has got to be going on across the country, given the volume, we shouldn't be doing things that are going to handicap our ability to try to intercept the drugs.

CUSTOMS AIR PROGRAM

We ought to be trying to go the other way. It just disturbs me that we get the great rhetoric about the war on drugs, and then we look around, and I looked at your opening statement, and I see that you say that this total includes $585 million and $17,070,000 for the operation and maintenance of the Customs Air Program.

I thought we had gone beyond that $17 million figure.

Mr. VON RAAB. That is a technical issue. Until there——

Senator CHILES. It is not technical with me, Mr. von Raab. It is not technical with the people of Florida.

Mr. VON RAAB. But if you read on further, until the budget amendment is formally presented to Congress, we are not supposed to change the numbers in the budget. That issue is addressed on page 4 of my testimony, where I say that those numbers will be adjusted upon the request of a budget amendment.

That is what we are required to present, only the numbers that are reflected in the formal documents that you have already received.

Senator CHILES. But we are going to have an amendment forthcoming——

Mr. VON RAAB. Yes, sir.

Senator CHILES [continuing]. With a request for the amounts——

Mr. VON RAAB. Yes, we are.

Mr. POWIS. Both for the $11 million, Senator, and for $4 million for the Bahamas aerostat.

Senator CHILES. Can you tell us where this money is going to come from?

Mr. POWIS. From within the Treasury budget. We are attempting to find the sources of that right now.

Senator ABDNOR. If I could interrupt a minute, I think we all pointed out we didn't want that money to come from any law enforcement.

Senator CHILES. I thank the chairman, because that was the point I wanted to make. I thank the chairman for giving me the time. I have a few other questions.

Senator ABDNOR. Fine. We will just keep alternating, Senator Chiles, and I will slip back for a second, as long as we are on this worthy subject of dollars and how far they are going to go.

Commissioner, you are requesting $8.8 million for the automated commercial system. I think I got enough of an explanation to know it is a good move. I would have no objections. I just hope when we are all through here we find that we have the dollars for that purpose, because we know you can put them to good use.

RADIO VOICE PRIVACY

The money for the voice privacy, is that enough? What are you asking for? I had that figure, $5 million, I think it was. Will that do the job? We certainly think that is a worthy purpose.

Mr. VON RAAB. We have a 5-year program of implementing a complete, at least complete to our satisfaction, voice privacy radio system.

Maybe Mr. Corcoran could explain it in a little more detail. It is a very important program to the Customs Service.

Senator ABDNOR. Safety, and everything else.

Mr. VON RAAB. Absolutely. Safety is critical, and also effective operations.

Senator ABDNOR. Mr. Corcoran?

Mr. CORCORAN. Yes, Mr. Chairman. As you know, we have mentioned before that our traffic on the air has been monitored during our enforcement operations. We have a 5-year program. This is the second component of that program, and we are a little bit ahead of schedule because of the congressional increases to Exodus in south Florida and our organized crime task forces. We were able to add voice privacy within those programs as well, so we are approaching almost half of our target area. We targeted about 3,000 voice privacy radios which would take care of most of our air, land, and marine patrol and investigative units. We have approximately 1,300 with this increase.

Senator **Abdnor**. Fine.

Mr. Powis, we agree with you that this should be a vast improvement.

Mr. **von Raab**. The best part about these radios is that when a Customs enforcement officer is broadcasting in a private mode, an unauthorized person attempting to monitor the broadcast will not hear anything. Even a Bearcat scanner is not very effective, because although it might stop on the transmission, it will not pick up any signal.

It is not just a scrambling device in which you hear scrambles, you don't hear anything. It's very clever, a very good radio.

Senator **Abdnor**. There are some in use now?

Mr. **von Raab**. Yes, sir. How many are in use now, George?

Mr. **Corcoran**. Over 700.

Mr. **von Raab**. About 700 of our officers have them.

Senator **Abdnor**. Can you tell where they are being used?

Mr. **von Raab**. Sure. Miami, obviously.

Senator **Abdnor**. I mean can you tell the results from the facts, are you "posseying up" the smugglers a little?

Mr. **von Raab**. Well, I can only tell you from conversations I have had with Customs officers that they are very pleased with them, and they feel that any number of operations that otherwise might have been compromised have been successful.

Mr. **Corcoran**. I think the major thing we can mention is that in our operations we are now free to talk to each other. We had almost gotten to the point where we didn't speak freely on the radios because they were being monitored. Now, we can move our operations much more effectively and efficiently by talking on the radio, particularly in sensitive operations such as Exodus.

Mr. **von Raab**. As you are aware, there is a whole culture out there that listens to police broadcasts.

Senator **Abdnor**. They love it. It may be a favorite pastime.

RIF COSTS

Let me return to the reduction in personnel. It is a popular subject here.

The 923 personnel, now I know that you have no RIF funding in this proposal.

Now, do you have any idea what RIF will cost you if you carry this out? I think you would have to agree the freeze is great, but you are not going to get rid of 923 people between now and the end of September if you freeze hiring.

Mr. **von Raab**. No, sir. The estimated RIF costs would be in the neighborhood of $10 million, plus or minus. Of course, it is always affected by the number of voluntary departures.

Senator **Abdnor**. Where will you get it from? It is not in the budget. At least I can't find it. Is there someone here who can tell us, Mr. Russell?

Mr. von Raab. As we move through the year, we would have to find those savings.

Senator Abdnor. What bothers me, you know, last year you were going to RIF 2,000 people. We did not go along with that, but there was 52 million dollars' worth of allowance for RIF purposes in that, going after those 2,000 people.

If that was the scale, you know, you are almost up to half, 923, so you must at least be talking about $20 million.

Mr. von Raab. I cannot explain the difference in those figures. I will have to go back to my comptroller's office and find out why they are different.

Senator Abdnor. This is another area of concern of ours, that we are going to keep robbing this area and that area. Somebody is going to lose money in this juggling around.

I would point this out, that if you couldn't find the $10 million, or $20 million, or whatever was right last year versus this year—say $15 million—you didn't have that quickly, you would have to reduce your work force more to find the dollars to carry on the RIF Program, because that is something you can't get out of.

It is something we have to look into, and maybe you could submit something in writing to us on that, because I think we wouldn't want you to see having to reduce even more than if we would allow this, even go below the 923 people in order to find the dollars.

[The information follows:]

Funding for Proposed Fiscal Year 1985 Reduction in Force

The Customs Service fiscal year 1985 budget proposes a reduction in force [RIF] of 923 FTE. Funding for the RIF is not included in the budget.

Customs options for responding to this problem would involve implementing reductions in various inspection and commercial programs, cutting back on hiring in fiscal year 1985, delays in recruitment for vacant positions, and further administrative efficiencies.

CLOSING CUSTOMS REGIONAL OFFICES

Senator Abdnor. Right along with the RIF's and right along with the reductions, let me ask you this: Will any of the Customs regional offices have to be closed to meet the 1985 requested funding level?

Mr. von Raab. Our plan is to close the Boston regional office and the New Orleans regional office.

Senator Abdnor. How would those be offset? I am sure you would do something. Who would cover these areas?

Mr. von Raab. Boston would be covered from New York, and New Orleans would be covered from Miami.

Senator Abdnor. You are satisfied that can be done without any——

Mr. von Raab. Yes, sir, we had a very successful program in which we combined the San Francisco and Los Angeles regions and the Baltimore and Boston regions, and achieved some very real savings. The response from the commercial community as well as the local law enforcement community has been very favorable. There is a little bit of redundancy in the region.

Senator ABDNOR. Would that be mostly in administration? It wouldn't reduce the manpower on the line?

Mr. VON RAAB. That is correct. As a matter of fact, we have an ongoing program to transfer positions from regional operations into the field whenever possible. The Customs Service believes that is where we should put most of our positions, rather than in administrative areas where they just manage paper.

Senator ABDNOR. That takes care of the regional. There will be two less. How about districts?

Mr. VON RAAB. We would be consolidating something less than a dozen districts.

Senator ABDNOR. In all cases, we are just talking about the administrative end. We are not going to tamper with the manpower you have out on the line to interdict?

Mr. VON RAAB. That is correct. In these cases, all these positions would be accurately classified as administrative, rather than line, positions.

Senator ABDNOR. Well, I realize that, but I would just like to know——

Mr. VON RAAB. They would be a secretary to a district director, or an assistant.

Senator ABDNOR. But there won't be any inspectors? No inspectors?

Mr. VON RAAB. No; the inspectors would not be affected by these consolidations.

Senator ABDNOR. The reason I wondered is that there were 419. Is that what I have here? There were 400 some inspectors you were talking about reducing. It was 415, I think, that are in inspection and control. Oh, I see. All right.

I just don't want to see the manpower reduced in that area.

Do you plan to close any ports of entry?

Mr. VON RAAB. We have no plans to close any ports of entry.

Senator ABDNOR. All right. Do you envision reducing your appraisement centers?

Mr. VON RAAB. Yes; we would reduce our appraisement centers in the 1985 budget plan down to around 35.

Senator ABDNOR. They would be more centralized then?

Mr. VON RAAB. That is correct.

Senator ABDNOR. Have you done that in the past?

Mr. VON RAAB. We have effected some centralizations up until the point where we are proscribed by Congress from continuing on with the program.

Senator ABDNOR. It has been fairly successful. They still have the same appraisement, only it is done in one centralized area?

Mr. VON RAAB. Instead of having outlying areas for appraisement purposes, it would be done more centrally, in one city rather than four cities.

EFFECT OF BUDGET REDUCTION ON DRUG ENFORCEMENT

Senator ABDNOR. A last question before I call on Senator DeConcini. Will drug enforcement—and give me your honest answer, Mr. von Raab, nobody else's answer, I don't care if you do have bosses over you—would drug enforcement be adversely affected by the budget reduction? You guys know where we are today. Are you satisfied that you are not going to hamper our drug enforcement in any way?

Mr. VON RAAB. If we are able to make the reductions as they are set forth in the budget, without the concerns or the modifications that might be made because of the political needs of various people, drug enforcement will not be affected.

However, if the budget plan starts to get shifted around because of concerns of moving positions from one location to another location where we believe we are moving them from a low-risk to a high-risk operation, then we would have a problem.

Politically, it will be a difficult exercise if pressures are placed upon us not to make certain changes. So that would be the only problem. The answer is yes, but it is not an unequivocal yes because if political pressures are brought to bear on us, which I hope wouldn't be, then it would be difficult.

Senator ABDNOR. We said a minute ago it would take $56 million to bring you up to where you are today, and you just said, then, if you had control of the budget, if you could do what you want to do, place your people where you want to place them, reduce your people where you want to, that you can do just as good a job as you are doing today. Did you really want to say that?

Mr. VON RAAB. Yes; I think we can.

Senator ABDNOR. Your witness. [Laughter.]

Senator DECONCINI. Well, Mr. Chairman, that is the bottom line, and I take Mr. von Raab at his word. I can't say that I don't have doubts about it, but I appreciate your candidness that you really think you can accomplish this. I can only say that whatever we add or don't add here—or do—I am going to ask next year if we have—if you have succeeded.

Mr. VON RAAB. No tinkering with our budget. That is the problem.

Senator DECONCINI. Second, I am going to ask you where, including myself, where we in Congress have messed up your budget by asking you to make personnel changes, andthen we will have a better assessment. I think your bold statement is just that. I think it is a very bold statement, and I respect you for it.

If I were in your shoes, I would have said, "Well, Senator," or "Mr. Chairman, I think we could do a better job with more resources. I am committed to this budget, because this is the administration's budget. I am committed to this program because it is the administration's program, but, yes, I think we could do an even better job, and we could really meet the commitment that has been made, and that there is a good chance that we may not be able to do it with the budget that is proposed."

That is what I would have said if I were sitting in Mr. von Raab's chair.

CONSOLIDATIONS

Mr. VON RAAB. Well, if you look at the numbers, the tough part of this, really, is the reduction in the inspection force. The other positions are more administrative. Less so the centralization of appraisement, and that is a very political area as Senator Abdnor knows. We were prohibited from doing this before, and there are legitimate concerns in various parts of the country. We will have to be very careful in the way we handle the inspectional reduction, because it is going to be a tough exercise.

Senator DECONCINI. I would like to ask, Mr. Chairman, whether we could ask the Commissioner to submit to us when you have it put together, what consolidations, closings, and realignments you are going to make in these various districts and what have you.

Senator ABDNOR. Yes.

[The information follows:]

CUSTOMS REORGANIZATION PLANS FOR FISCAL YEAR 1985

Customs reorganization plans for fiscal year 1985 include the consolidation of the northeast region with the New York region, and the consolidation of the south central region with the southeast region. In addition, the following districts are being considered for consolidation in fiscal year 1985; however, the specifics of these consolidations have not been determined: St. Albans, Bridgeport, Providence, Wilmington, Mobile, Dallas/Fort Worth, Port Arthur, Milwaukee, Duluth, and Portland, OR.

No reductions in force have taken place in Customs as a result of reorganizations.

OPERATION EXODUS

Senator DECONCINI. I would like to ask acquestion on Operation Exodus. President Reagan called on Customs over 1 year ago—about 2 years ago now—to shut the door through which the Soviet Union is obtaining American technology. Mr. McNamar testified before the House that stopping these high technology exports to the Soviets was second only to drugs in Treasury's law enforcement priorities.

Operation Exodus is your program for stopping these exports. Yet, the 1985 budget cuts the exodus operation from $31 million in fiscal 1984 to $16 million next year, a cut of 48 percent. Part of that cut is for so-called nonrecurring equipment.

But even with those items considered, the cut is 25 percent below 1984. How do you reconcile that we are going to "shut the door" with that kind of a cut?

Mr. VON RAAB. The export control program of Exodus has developed over the years. I think of it as having three parts. First is the inspectional network that we have attempted to string around the United States to physically prevent the export of critical technology, staffed by inspectors and their support.

Second, is our domestic investigations, staffed by criminal investigators or agents. Third, is investigations outside of the United States, involving anything that slips through the net.

I am quite comfortable that we have established a not only credible but also effective deterrent in our inspectional network, and I believe that we are in the process of making modifications that will maintain that deterrent and strenghten it.

For example, we are going to give our inspectors microcomputers so that instead of having to spend hours on the telephone trying to figure out what an item is, they can go through a heirarchical search and figure out whether or not they should detain the item.

On the investigative side, we have a better sense of some of the organizations involved in this activity, so we are no longer wandering around in the dark hoping to grab somebody. We know more about where the violators are.

It is these developments that have taken place in Exodus that will enable us to reduce our resources, and also, as you pointed out, some of the resources that we will be reducing would be capital expenditures.

I am not uncomfortable with it.

Senator DECONCINI. That program has been a success. I think a great deal of it goes to your leadership and that of your fine staff that you have. I think it is most admirable to submit a lesser dollar amount when you have already invested in the equipment area, but to cut it another 25 percent when it seems to be working well certainly raises questions in my mind, and I wanted to raise that with you.

Mr. VON RAAB. I would be happy to give both Senator Abdnor and yourself a few more details as to what we are doing. We don't want to expose our strategic plans to the bad guys, but we do have some modifications in mind, and I would be happy to describe them to you.

BORDER CONSOLIDATION PROPOSAL

Senator DECONCINI. Let me turn to the Border Consolidation Program. I will submit most of these, Mr. Chairman. Let me ask just a couple here that are of real concern to me. These types of questions are only offered, Mr. Chairman and Mr. von Raab, to point out the realization of some of us in the legislative branch that have come to some of the same conclusions that members of the Treasury came to back in the fall of 1983. I understand that Deputy Treasury Secretary McNamar wrote a letter to OMB Director Joe Wright criticizing the proposed inspection consolidation plan, recommending that primary inspection be consolidated in Customs, not INS, and not in both agencies, as is currently planned.

In that letter, he told Mr. Wright, "Enforcement, particularly narcotics enforcement effectiveness, would be weakened at exactly the wrong time."

Then he went on to say, "The administration would be subject to ridicule by Congress for solving problems, of fragmentation, duplication, and lack of accountability by further splintering border responsibilities."

Well, I think he is so right, that you are being ridiculed today for a plan that within your own Treasury Department was so objectionable, and I realize that somebody upstairs made a final decision, but I would implore you, Mr. Powis, to encourage a reconsideration by Secretary Regan and the President, if necessary. I deeply agree with Mr. McNamar. That is why the opposition has surfaced, because he is dead right. Maybe there is a realization in the administration, whether it is the President, or whoever, who made the final decision in this area.

Mr. Powis. Senator, we will certainly pass on your thoughts. That letter was written at a time when the whole concept was just being developed, and before a decision had been made as to the current plan.

It is my understanding today that Mr. McNamar supports the current plan, and I would point out that Customs operations actually will be strenghtened at airports and seaports as a result of this plan, since they will have the responsibility for primary inspection.

I think that is the difference between Mr. McNamar's position today and when he wrote that letter.

Senator DeConcini. It is the land border area of the plan that disturbs me so much, and I know that the decision is there. I know, I have talked with Mr. McNamar, and now he is on board, but it is so clear to me that the arguments were certainly convincing to the heads of—perhaps yourself as well—to the heads of the Treasury Department that the plan was not put together very well.

On October 18, 1983, while options for border inspection consolidation plans were being reviewed, John Walker wrote a good detailed memo on consolidated border inspection which pointed out that consolidation of primary inspection into Customs would save 973 positions, and $27 million, as opposed to the savings of 272 positions and $6 million if they were consolidated into INS.

He went on to advise that consolidation in Customs would be the least disruptive option, since Customs handled the majority of the workload at primary inspections anyway.

I also understand that the Grace Commission report seemed to favor Customs.

In view of the dollar amounts that were in Mr. Walker's letter, Mr. Powis, are you sure this information was brought to the final authority that made the judgment to come up with the plan that we see you are now all committed to?

Mr. Powis. Yes, sir. To the best of my knowledge, that information was brought to the attention of those who made the ultimate decision. The consolidation plan was not on the table at the time Mr. Walker wrote that letter. That information was definitely brought to the attention of the people who made the ultimate decision, and Mr. Walker supports the present plan.

1984 OLYMPICS

Senator DeConcini. OK. My last question, Mr. Chairman, and then I will submit some, deals with the Olympics. During the March 16 hearing in Los Angeles on Olympic security, boththe INS and the Customs regional commissioners testified on the record that they would recommend the border consolidation plan be postponed, at least until after the Olympic games in August. In view of the fact that this was stated, can we count on you not to implement any plan until after August?

Mr. POWIS. I think the progress of the plan itself might take care of that, Senator. By the time there is a legislative recommendation, which is being worked on there is a fair possibility that——

Senator DECONCINI. Let me put it a little differently, then. These hearings which Chairman Roybal on the House side conducted and was kind enough to invite us to, really made a great impression as to the horrendous problems that you are facing as well as the other agencies. And when this question was raised, the INS and the Customs Commissioner there were very candid and gave us their opinions. If you have not talked to them or heard their opinions, it seems to me that they might influence you, just like they influenced me. I think the other members of the committees that were there were also influenced. You ought to take it upon yourself to make sure that nothing is done, assuming that you do go ahead, or we don't stop it, or modify it in any way, that we don't do anything that might upset a pretty finely tuned operation in Los Angeles at this time. Maybe you have already talked to them, or maybe Mr. von Raab has——

Mr. VON RAAB. Our directions from the Department are very clear, and that is, "Don't do anything in midstream that will screw up the Olympics."

Senator DECONCINI. We are glad to hear that.

Mr. VON RAAB. Those are the orders that we are under. We have many new developments, for example in the computer area. We are not going to put those into effect until the Olympics are over.

Senator DECONCINI. I can take it from that statement that nothing is going to happen until after August?

Mr. VON RAAB. Probably not.

Mr. POWIS. Certainly not without consultation with the regional commissioners, Senator.

Senator DECONCINI. Based on what you just said, that nothing is supposed to be done to screw up the Olympics, and that your commissioner out there, along with the INS, has recommended on the record before Chairman Roybal's committee that nothing be done toward the border consolidation plan until after the Olympic games in August, it is pretty firm that nothing is going to be done in that area——

Mr. VON RAAB. I will recommend to the Department that nothing be done, and I'm sure that they will agree with my recommendation.

Senator DECONCINI. Thank you.

Mr. POWIS. We listen closely to Commissioner von Raab.

Senator DECONCINI. Thank you very much. I appreciate the conciseness of that answer. Thank you.

DRUG ENFORCEMENT

Senator ABDNOR. When we finished up, we were talking about drug enforcement, that it wouldn't be affected. I assume that covers the other areas of law enforcement in Customs. We have pretty well hit the drug area, but do you feel just as adamantly that we are not going to lessen the other areas of law enforcement that you in Customs carry on?

Mr. VON RAAB. That's correct.

Senator ABDNOR. The only thing that bothers me, and I will say this to Mr. Powis, is that we have given a top priority to the war on drugs, this whole administration, and I am not one to put one against the other, but I think they are all important, and the DEA, the FBI and the INS, they have all received increases to fight this war they are committed to, and I just hope the fact that we are talking about a $56 million figure for the Customs doesn't mean in any way that the Treasury Department lacks support for their end of it. I am correct in saying that is not the message I am supposed to get, is that right?

Mr. POWIS. That is correct, Mr. Chairman. That should not be the message.

Senator ABDNOR. I assume you don't look at the other areas and wonder why the other groups like the FBI and the DEA, have more money while we are going backward. Wouldn't you say you played this——

Mr. POWIS. An awful lot, Mr. Chairman, has been done by the Customs Service and by the Criminal Investigation Division of the Internal Revenue Service, in terms of putting more people on the line against the drug trafficker.

Senator ABDNOR. Particularly working together in the Vice President's task force in Florida, I grant you, but it is still operating like it always did before. I haven't noticed that we have carried on a huge increase in Customs. We gave an increase to the Secret Service last year in numbers, but we cut 400 from you last year, and now we are coming down with more.

Actually, you asked us for 2,000 a year ago, 900 this time. What the heck else can we think here? Pardon me, but when you drop by that amount, I just don't think there are that many people to be gotten out of here and carry on an effective operation.

Mr. POWIS. I certainly agree with your numbers, Mr. Chairman. I think Commissioner von Raab has done an outstanding job, however, in terms of reprogramming, and as a result we have more agents in Customs today. We have 30 some odd financial task forces working around the country. We have Customs, IRS, and ATF personnel dedicated in all the organized crime drug enforcement task forces.

We are participating very heavily, particularly with Customs in the six NNBIS regions, so we have done a lot internally. We have done a lot as a result——

Senator ABDNOR. You have done fine, and I am not blaming you for this, but somebody in this area who calls the shots obviously isn't as committed or feels as strongly about Customs as I feel, and you feel, and Mr. von Raab feels. Somewhere there is a lack of commitment by somebody who calls the shots, or we wouldn't be calling for 2,000 fewer people one year, and we gave you 400, and then come back and ask us to release another 900.

These are tough times, but I think it's a lot tougher in the drug area, and that is the only point I would like to make. That is how the shoe fits here.

BONDED WAREHOUSE PROGRAM

How is the new Bonded Warehouse Program working?

Mr. VON RAAB. Yes; that has been a good test of our slightly different approach to life in the commercial world. We used to think that we were protecting our bonded warehouses by stationing guards outside of them. We were comfortable with that approach, and apparently never went in to count whatever was inside.

We have moved to a more modern approach in which we use modern accounting and auditing techniques, and much to our surprise we have discovered that some of them were guarding less than they thought they were guarding.

We are much more comfortable now with the way the system is working. It still has a few bits and pieces that have to be reworked, and we are working on that.

Our Bonded Warehouse Program is still an area of some concern, for commercial fraud purposes particularly. However. we have reduced about 200 reimbursable positions and about 100 nonreimbursable positions, so we are happy that we have saved the taxpayer a little money.

Senator ABDNOR. Very good.

CONTRABAND ENFORCEMENT TEAMS

Let me jump around and ask you if you could briefly describe the contraband enforcement teams and how they operate, and will the cutback affect the teams in any way?

Mr. VON RAAB. The contraband enforcement team is the brainchild of Mr. Mach, who is sitting at my far right. Before I turn this over to him to give him his opportunity to present this magnificent approach, I would say that it is one of the major developments of the Customs Service over the past 2 years, and is singlehandedly responsible for a large portion of the increase in seizures that has taken place at airports and land border crossings.

Mr. Mach, would you give us a little more detail on that?

Mr. MACH. I am not sure I can add to that, Commissioner. The contraband enforcement team is made up of inspectors, and in some instances import specialists and agents who are dedicated to enforcement. That is, they do the total job of enforcement when it comes to cargo examination. They are a group that will review the manifest of the vessel, review entry documentation, try to work as much in advance of the arrival of a shipment as possible.

They use our automated equipment to the extent possible. They use our intelligence systems. They are really dedicated to selectivity. They try to home in on what we should be looking at in cargo.

In passenger processing they are used similarly to what I described earlier as a roving type of officer, who is free to move about a passenger enclosure area detecting high-risk passengers and baggage, with which they then take appropriate enforcement action.

Senator ABDNOR. How long have you had them? I guess you have had them always, but as contraband——

Mr. MACH. They have come into existence in the past 2 to 3 years, during which time we have really put forth an effort to staff up these teams.

Senator ABDNOR. Well, you call them a team. How many are there on a team?

Mr. MACH. It varies from port to port, sir. For example, in the Port of Miami, we will have as many as 50 people involved with the team. In a smaller location, there may be only one or two officers on a team. It depends on the volume, the risk of the merchandise, the risk of the port and the country of origin of the arriving merchandise.

Senator ABDNOR. How many people do you have total on the teams, and how much more is it than last year, or how much less?

Mr. VON RAAB. I know we have added 65 this year to the team.

Mr. MACH. We have a total of 500.

Mr. VON RAAB. And we have increased it by about 100 the past year.

Senator ABDNOR. What about 1985?

Mr. VON RAAB. It will not be reduced. That is exactly the sort of thing to which the Secretary was referring, if we were to make these 415 reductions in the inspection area. We would not touch, for example, the contraband enforcement team because that is the guts of our enforcement effort in the inspectional area.

Senator ABDNOR. Let me ask you this: I suppose it is an obvious guess, in some cases, but this is where you really need the manpower, is it? I mean, could you use even more, because this is where you catch the illegal dope, and——

Mr. VON RAAB. Yes; we are very careful about our contraband enforcement teams, because we give them special training, and they have to be supervised properly in order to be effective.

Therefore, we have gone only as fast as we thought provident in increasing the numbers of the contraband enforcement teams so that they would work very well.

I think it is fair to say that we have been increasing those numbers as fast as we thought was proper, and probably will continue to increase them in 1985 regardless of the budgetary numbers, if we think that we need more.

Senator ABDNOR. Very good.

EXODUS

Let's jump into a program I have been very interested in, and that you have done a good job with. We want you to continue doing it. That is Exodus. How would you say it is working, and what impact is the reduction going to have there?

Mr. **von Raab**. I briefly discussed the development of Exodus. I would like to turn this question over to Mr. Corcoran. This may be his brainchild. So let's give him an opportunity to give you some of the very successful details of the program.

Mr. **Corcoran**. Mr. Chairman, since the outset of Exodus, which started in January 1982, we have made over 3,000 seizures, valued at $186 million.

The Commissioner said this was the initial part of our program, the inspectors at the ports looking for materials that are not licensed. In the past year we have progressed to our second and third phases, and that is the investigative activity to try to target the critical technology, in particular the high technology that is used by Defense, as well as in commercial use, and I am happy to say that in the past year we have gone from 300 major investigations to about 1,200.

We have greatly expanded our domestic and overseas operations, we have doubled the number of agents overseas, and are working with our foreign counterparts as well as the Commerce Department, Defense, the FBI, and several other agencies.

As the Commissioner mentioned earlier, we now feel we are beginning to get a good handle on who the organizations are internationally that are moving critical technology, not only in this country, but also in other countries, into the Soviet bloc, as well as the sources. Here, it is a little easier than in drugs, because here the sources are the legitimate manufacturers and their customers, the legal ones, and later in some instances when it is diverted the illegal customers that we are targeting.

So I think it is fair to say that at this stage our Exodus Program is expanding and it is highly successful. We are adjusting some of our tactics which, as the Commissioner said, we would be glad to discuss with you in closed session. I think we have some innovative approaches that will target in the next couple of years some of the major diversions that we are concerned about.

Senator **Abdnor**. I couldn't agree more, Mr. Corcoran, with everything you have said, and I certainly want to commend you for being the father of this program. It is really just getting off the ground and starting to work.

In fact, we in the Senate have enough confidence in the job you are doing that we insisted in our version of the Export Administration Act that you have investigative responsibility as well. We think that is where it belongs, not over in that other agency. You people are doing a fine job.

Then I pick up the budget and find you are going to get a reduction of somewhere between 20 and 25 percent in Exodus when we are asking you to do more, and you are really just getting the program going. How are you going to get along without $5 million?

Mr. CORCORAN. Well, I think the major adjustments are——

Senator ABDNOR. We just can't keep picking this up out of some other area of the budget. We have got to be accountable here. I am sorry. Go ahead.

Mr. CORCORAN. Our major adjustment is in tactics. We already have a lot of the capital equipment we need, such as the cars, the voice privacy radios and the computers, and now it is primarily a major investigative, inspection and intelligence operation, and I think we are capable of doing the job.

Senator ABDNOR. Well, that is $1 out of $4, almost. More power to you. We need you all over Government if you can come up with solutions like that, because this is our biggest problem.

TRADEMARK VIOLATIONS

Jumping over to another subject, trademark violations, let me say something. Last night, I went to a show, we called that, or a demonstration, here in one of these rooms, on trademarks, and I saw a lot of false, fake commodities there, products that had brand names that didn't belong on there, watches, bags. As a matter of fact, I couldn't even tell two twin girls. I made a mistake. They each had the same thing on, only one of them was wearing a fake brand of clothes, and I picked the wrong one. They both looked alike, so it had nothing to do with their looks. But, that is in your department Mr. von Raab, is it not?

Mr. VON RAAB. Yes, sir, that is a part of the increased effort that we have made in Operation Tripwire, which is our effort to move our forces against commercial fraud, which involves violations of our tariff and trade laws.

Senator ABDNOR. Those are under what? Does that come under your regular inspection?

Mr. VON RAAB. As with a number of these programs, several of our functional units are involved. Frank Brennan is here from the Office of Duty Assessment, which is a major piece of the Commercial Operations Division, and he is our in-house expert on trademarks. If you would like, he can explain how that all works.

Senator ABDNOR. After last night's exhibition, I am curious, because that has got to amount to hundreds of millions and billions of dollars.

Mr. VON RAAB. It is.

Senator ABDNOR. People think they are buying everything from faucets on washbasins to——

Mr. VON RAAB. It is counterfeiting and the anticounterfeiting coalition which was established a few years ago works very closely with us, providing us with leads, and we in turn try to support them. Textiles, steel, and electronics are the three industries where we are having the most success, and doing a good job to make sure we are not adversely affected by fraudulent practices of people outside the United States.

Senator ABDNOR. This is the thing. You are doing such a great job, and you still have more to do after seeing all the products. They told me what different people, or companies, had there, and I quizzed them as to how big an operation this fraud is, and it is huge. The public is being taken. We may be saving a few millions, but it is costing somebody hundreds of millions around this country because we are not doing a complete job. I am not suggesting you are not, but it is a big, big problem that has to be dealt with.

Now, let me ask you about another problem, because these are the things that bother those of us who are conscientiously trying to make sure that you are going to have the dollars to do the job that needs to be done. What impact will the budget reduction have with regard to counterfeiting? You know, this affects every aspect. You don't think your dollars are going to cause you any problems?

Mr. **von Raab.** I don't think they should have any effect on counterfeiting.

Senator **Abdnor.** Do you think a computer—you know, I know we are going to solve a lot of these problems with computers. But it doesn't take care of things like counterfeiting, does it?

Mr. **von Raab.** Our major weakness in the counterfeiting area is acquiring good intelligence on when the merchandise is coming in. This area is being closely reviewed by Congressman Dingel's committee. Both he and Congressman Broyhill have some concerns about not necessarily how well, but the degree to which Customs is attacking this problem.

We are working closely with their staffs, and I am not uncomfortable with our ability to continue to handle that issue.

PREPARED STATEMENT

Senator **Abdnor.** We are aware that Congressman Dingel is doing considerable work on the exchange hearings with regard to the problem relating to commercial fraud, and I am going to ask unanimous consent that a statement he has prepared be made a part of our record, too.

[The statement follows:]

Letter From Representative John D. Dingell, Chairman, Subcommittee on Oversight and Investigations, Committee on Energy and Commerce

April 9, 1984

The Honorable James Abdnor
Chairman
Subcommittee on Treasury, Postal Service
and General Government
Committee on Appropriations
Room 188 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Jim:

I understand that the Subcommittee on Treasury, Postal Service and General Government will hold hearings tomorrow on the Fiscal Year 1985 Appropriation of the U.S. Customs Service. I would like to submit the attached testimony for inclusion in the record and for distribution to the other Members of the Subcommittee. My testimony calls for strengthening the Customs Service, especially in the area of commercial fraud detection.

The proposed testimony is based on an investigation by the Subcommittee on Oversight and Investigations over the last year into unfair foreign trade practices. During this investigation, the Subcommittee has learned a good deal about the operations of the Customs Service. This experience is reflected in my testimony.

I am enclosing a copy of our printed record of the first five days of public hearings on illegal and unfair foreign trade practices. You already have a copy of the Subcommittee's recent report on the theft of American intellectual property and the health, safety and economic consequences of this growing problem. Also enclosed are additional copies of the report, which I would ask be distributed to the Members of the Subcommittee.

Thank you for your cooperation in this matter. If you or your staff have any questions regarding my testimony or the Subcommittee's inquiry, please call David Nelson or Stephen Sims of the Subcommittee staff at 225-5365.

Sincerely,

John D. Dingell
Chairman
Subcommittee on
Oversight and Investigations

Statement of Representative John D. Dingell

The Subcommittee on Oversight and Investigations of the Committee on Energy and Commerce has been conducting an investigation into the impact of unfair and illegal foreign trade practices on interstate commerce. Over the last year, we have held seven days of public hearings which have produced over fifteen hundred pages of sworn testimony. The Subcommittee also has issued a report describing the threat to American consumers and industries by the wholesale violation of American intellectual property rights by foreign pirates.

During the course of this investigation, the Subcommittee staff has interviewed hundreds of individuals, including many Customs line personnel. Import specialists, inspectors and special agents from the ports of Los Angeles/Long Beach, San Francisco/Oakland, Seattle/Blaine, Chicago, Detroit, Baltimore, Newark, New York and

Miami have testified before the Subcommittee. Additional interviews have been conducted in other ports in the United States and abroad.

In October 1983, a staff delegation traveled to Taiwan, Macau and Hong Kong to gather facts relevant to the Subcommittee's inquiry into the extent of commercial counterfeiting of U.S. trademarks, copyrights, patents and tradedress. During that visit, interviews were conducted with U.S. Customs personnel assigned to the consulate in Hong Kong.

The Subcommittee staff has worked closely and cordially with Customs officials assigned to the Commercial Fraud Center at Customs headquarters, commonly referred to as "Operation Tripwire."

We have had extensive discussions with government officials from various departments, as well as the FBI, several Assistant U.S. Attorneys, the Office of the U.S. Trade Representative and the International Trade Commission.

The private sector, including representatives of U.S. and foreign concerns in the Far East, has been consulted heavily during this investigation. These individuals have a detailed, working knowledge of the capabilities of Customs in various ports and overseas.

The staff has also held discussions with officials of the National Treasury Employees Union (NTEU), the bargaining agent for most employees of the U.S. Customs Service.

Virtually all these sources agree on one essential fact: current staffing levels at the Customs Service are in no way adequate to control commercial fraud. This situation exists despite the fact that the Customs Service employs a number of individuals who can only be described as among the most dedicated and informed civil servants in the U.S. Government.

Despite this serious problem, which costs the American economy many billions of dollars in revenues and hundreds of thousands of jobs, the President's Budget again proposes a large cut in the funding of the Customs Service.

Instead of a cut, the funding of the U.S. Customs Service must be increased substantially. The House Ways and Means Committee has recently authorized a budget of $686 million for the Customs Service for Fiscal Year 1985. This is an admirable first step and I applaud Chairman Rostenkowski as well as Chairman Gibbons and the Trade Subcommittee for their efforts.

However, I believe that the record compiled by the Oversight Subcommittee supports the need to dedicate at least $29 million exclusively to the detection and deterrence of commercial fraud. Before proceeding with an itemized list of how this additional money could be spent, let me share some examples of the dimensions of the foreign counterfeiting and other commercial fraud problems.

A recent report by the International Trade Commission (ITC) estimates that in 1982, U.S. companies suffered nearly $5.5 billion in lost sales because of counterfeit foreign products. The ITC estimated that this cost about 131,000 jobs in the United States. The survey covered only trademark infringements in five industry groups. It did not include copyright or patent violations, nor did it cover tradedress, passing off and gray market sales. Thus, as noted by the ITC, "the questionnaire data must be viewed as representing a minimum for each industry."

In a January 26, 1984 speech before the International Anti-Counterfeiting Coalition, William Von Raab, Commissioner of Customs, stated that total lost sales to U.S. firms from all forms of counterfeiting may total $20 billion.

Testimony before the Oversight and Investigations Subcommittee last summer revealed that the problem of foreign counterfeiting extends well beyond lost capital and jobs. The health and safety of the American public, who rely on the quality control implicit in American brand name products, is threatened. For example, the counterfeiting of automotive parts has reached epidemic levels. Included are many substandard parts, such as brake linings, which can turn cars into death traps.

Both prescription and over-the-counter drugs are counterfeited. These preparations are dangerous in two ways. Lack of quality control results in impure drugs. Even where such medicines are not dangerous *per se*, the consumer is often deceived into believing he is being treated properly and thus may permit the illness to become far more serious.

Aircraft parts, heart pumps, missile components and even transistors in the space shuttle have been found to be counterfeit, and it is now clear that at least some of these dangerous counterfeits came from offshore sources. Customs inspectors and import specialists are the first line of defense against substandard foreign products that violate American trademarks and copyrights.

A dramatic reminder of the need for continued vigilance by the Customs Service was the March 21, 1984 indictment of Daewoo, a large Korean trading company, and a number of its employees on thirty counts of criminal violations relating to the importation of steel and steel products between 1980 and 1982. Customs has over thirty open criminal investigations in the steel area alone. Most of these cases involve steel dumping during the late 1970's and early 1980's, but several cases relating to more current violations have also been opened. Unless the trend toward reducing Customs manpower and inspections is reversed, our trade laws will be violated with impunity to the detriment of American workers, industries and consumers.

The magnitude of the problems caused by continued staff reductions can be gleaned from the following Customs and Commerce Department data. *Total merchandise imports increased in 1983; yet, total collections from tariff and trade activities declined by $195 million last year.* Imports of manufactured goods increased by almost $20 billion last year. When faced with the problem of unfair trade practices which result in a substantial loss of revenue to the government, the agency has apparently chosen to reduce entry document scrutiny rather than increase personnel.

Investigations by the staff of the Oversight Subcommittee have revealed serious problems in the Customs Service directly related to the lack of adequate resources. A number of specific examples have been identified.

The role of the import specialist is being systematically downgraded. These commodity specialists acquire specific and invaluable knowledge of the relationships between foreign suppliers and U.S. importers. By carefully reviewing entry documents, the import specialists initiate a number of fraud investigations. Import specialists also prevent large revenue losses by correcting broker errors on entry documents, which regularly approach thirty percent. Not coincidentally, the majority of these "mistakes" seem to favor the importer.

In most ports, at least until the advent last year of Operation Tripwire, agents often disregarded fraud leads supplied by import specialists. Drugs, currency and "Operation Exodus" cases were given top priority, and there were few agents left to do anything else. Commercial fraud cases were given low or no priority at all. Agents routinely told the Subcommittee staff that commercial fraud was "not career enhancing." In one port, an import specialist seized 4,200 pairs of counterfeit jeans himself after trying to get an agent to accompany him to the warehouse where the jeans were awaiting shipment.

In another port with a very large textile and apparel fraud problem, the number of import specialists handling these lines has been reduced to three. In addition, one was given the assignment of monitoring apparel imports from most of the world after only one week's training. In another port which handles a large volume of steel, an import specialist with only a few months of experience and virtually no expertise in steel was given that commodity line.

Despite quotas by type on specialty steel, only one port in the U.S. currently has the capacity to test quickly the metallurgical properties of imported steel. Moreover, the Subcommittee staff knows of no port that has the facilities to routinely weigh imported steel, much of which is subject to tonnage limitations.

The Customs Service has attempted to justify the decline in import specialists by moving toward a post-audit system of checking entry documents. Part of this system is the "Bypass" program, under which the entry documents are not reviewed at all. There is great pressure on district directors to increase the number of entries on "Bypass." "Bypass" guidelines are built into the performance evaluation requirements for import specialists in some ports. Even where they are not, the "Bypass" goals often exceed seventy percent of all entries of non-restricted merchandise. To me, this would appear to be a license to steal.

Last spring, an experiment with one hundred percent Bypass was carried out in the Chicago district. For thirty days, all entries of non-restricted merchandise were accepted as submitted. The import specialists then had thirty days to review these entries. Under the pressure of a doubled workload, the error rate uncovered was twenty-one percent. Even more important, Customs brokers and large importers had been officially notified of the test, thus skewing the results toward fewer errors. Moreover, thirty-five percent of all entries were already on Bypass, and these were excluded from the test. The Government collected $1,500,000 in duties that would have been lost under one hundred percent Bypass.

The moral equivalent of "Bypass" for inspectors on the docks and in the airports is called "Accept." Based on instructions from Headquarters, which are transmitted on a frequently non-functioning computer system, field inspectors let most cargo pass through Customs without physical inspection.

The "Accept" program attempts to rationalize the ever-declining number of inspectors and the ever-increasing volume of imports. But there is a point at which the risk of detection is so low and the chance for profit so high that an "Accept" type system loses control, no matter how well designed. The Customs Service may well be at or beyond that point. One inspector from the Los Angeles airport testified that if computer firms other than Apple registered their copyrights with Customs, the forty-five inspectors at LAX would be so overwhelmed that they would not be able to check anything other than computer shipments.

In a Philadelphia case, local narcotics officers stumbled across a warehouse containing several hundred counterfeit Apple computers from Taiwan. The computers and components apparently were being smuggled into the U.S. in containers loaded with heavy machinery. Over a thousand additional counterfeit Apple computers were seized this past December in California after the company hired private investigators to conduct undercover sting operations against importers. Counterfeit labels and logos have been found concealed in the middle of a container of shirts without brand names. Customs officials concede that the overwhelming majority of containers are never opened and the few that are opened are not checked thoroughly.

In December 1982, the Customs Service proudly announced that it had eliminated Customs inspectors assigned to bonded warehouses. The Customs Service permits certain goods to be entered under bond. Duties are deferred until the goods are released into U.S. commerce. Merchandise which is intended for a third country can be transshipped through the U.S. under bond and stored in bonded warehouses pending reexport. Bond applications are even accepted for storage on the premises of the importer pending entry into U.S. Commerce. Elimination of bonded warehouse officers essentially places warehouse owners on the honor system. Customs does not have sufficient auditing capacity to inspect these warehouses with any significant frequency. Last spring, less than six months after the bonded warehouse officers were removed, an audit was conducted of two hundred bonded warehouses. $444,400 worth of violations were discovered, including $61,000 in lost revenue.

It should be no surprise that serious problems existed with bonded warehouses. Lax enforcement in previous years had led to several scandals involving goods disappearing from bonded warehouses.

Customs officials experience similar problems with foreign trade zone warehouses. These are intended to house merchandise for reexport. It is Customs policy not to inspect the goods as they enter or leave the zones. In one part of the country, counterfeit jeans were being sold in the foreign trade zone. Shirts reportedly scheduled for transshipment to South America were on their way to New Jersey when discovered. Perfume was magically transformed into baby shampoo and sand in another warehouse. Stories abound of containers full of goods entering foreign trade zones and exiting empty or filled with other goods.

Falsification of paperwork appears to be a simple matter. In a recent case involving the Atlanta Foreign Trade Zone, $4.9 million in duty due the U.S. Treasury apparently was lost to fraud involving misdescription of foreign orange juice concentrate as orange drink.

Ex post facto audits work for the Internal Revenue Service, but they cannot be relied upon as the principal means of uncovering Customs fraud. After goods enter the commerce of the United States, it is virtually impossible to determine if they were described accurately in Customs entry documents. In the Mitsui steel case, the largest civil penalty ever collected by Customs, the entry documents were perfect -- and false. The Customs Service was able to act only because inside informants produced highly incriminating telexes, which permitted Customs to obtain search warrants and catch Mitsui by surprise.

In addition to the ill-fated attempt by the Customs Service to emulate the IRS in its entry review process, another addlepated analogy with IRS procedures is the concept of "Customs Avoidance." This term, which apparently parallels the distinction drawn by the IRS between tax evasion and tax avoidance, refers to conscious efforts by importers to alter the nature of their goods so as to place, or attempt to place, the goods in a different tariff category.

As the Subcommittee learned at its March 6, 1984 hearing on textile and apparel fraud, any importer wishing to "avoid" import quotas can physically alter or simply misclassify merchandise with the knowledge that, if discovered, the worst that will happen is that they will be required to obtain the correct visa. We have seen imports of fuchsia colored pants with feminine styling entered as men's wear, shorts with flimsly linings that are intended to be removed entered as "swimwear," non-functional tops added to jeans in an effort to enter them as bib overalls, shirts and blouses sewn together and entered as dresses, and other obvious attempts to misclassify goods so as to evade international quota agreements and, in many cases, reduce duty. Virtually none of these schemes, if discovered, place the importer in criminal or even civil jeopardy. The effect of "Customs Avoidance" is to call into question the usefulness of the textile agreements themselves for several key items.

Commercial fraud activities must be institutionalized. If not, Operation Tripwire may meet the same fate as Operation Steeltrap, which was instigated when Customs discovered, during its Mitsui investigation, that Customs fraud violations involving steel imports were massive and nationwide. After only two criminal cases were settled, Steeltrap was folded, not for insufficient leads, but because political priorities changed. Two-thirds of all special agents were assigned to the Operation South Florida anti-narcotics task force over a nine-month period. There were simply not enough people left to investigate commercial fraud. Under strong Congressional pressure, Customs revived the steel effort. Several recent indictments have resulted, but the rob-Peter-to-pay-Paul problem cannot be solved without budget increases.

Already scarce Customs resources will be depleted further this year because Customs agents will be required to assist the Secret Service in protecting Presidential candidates. In addition, the flood of athletes and visitors to the Los Angeles Olympic Games this summer will tax Customs operations on the West Coast.

The Oversight Subcommittee is aware of at least two instances where the Customs Service has refused or attempted to refuse to perform its statutory requirements due to budget constraints. Approximately two years ago, Customs informed the FCC that unless they received $220,000, they would no longer require the filing of forms which certified that certain imported electronics goods met FCC emission standards. When Customs could not produce a cost accounting, the FCC denied the funds request and Customs stopped enforcing the requirement. As a result, domestic firms spend substantial sums to meet these standards, but foreign firms get a free ride. At least in the case of foreign pirates, dangerous computers are entering the U.S. which the Customs Service ignores.

In February 1984, a senior Customs official wrote the ITC requesting that it deny an exclusion order on certain personal computers which violate U.S. patents on the "public interest" grounds that Customs lacked the resources to enforce the order. Five days later, that same official appeared before the Trade Subcommittee of Ways and Means on a panel that requested a 954 position cut in the Customs budget. The testimony of this panel was that vigorous enforcement efforts would continue, even with such a cut.

Specifically, this Subcommittee should consider earmarking funds for the following activities:

- Fifty additional Customs agents should be assigned abroad. Three people in the Hong Kong office have responsibility for all Customs investigations in Southeast Asia, the hotbed of counterfeiting. During the first two months of Operation Tripwire in New York, 142 requests were made to investigate apparent transshipment of textiles and apparel designed to evade the bilateral agreements the U.S. has under the Multifiber Agreement. The Customs Service was able to dispatch one agent from headquarters for three months to check on these and other requests from all other ports. Taiwan, the counterfeiting capital of the world, has no Customs presence. The estimated cost of these additional agents is $7,500,000.
- Regional fraud coordinators with initial responsibilities in the areas of steel, electronics, textiles and apparel should be assigned to each office. Any shift in areas of emphasis is to be reported to Congress annually. The estimated cost of these additional agents is $2,800,000.
- Twenty positions should be added at the Commercial Fraud Center Headquarters so that additional resource persons can be assigned quickly to the regions and districts as large cases develop, thus eliminating the need to strip some districts of their fraud detection capability when manpower is needed to work complex investigations and examine large volumes of documents. The estimated cost is $1,000,000.
- Fifty agents and a like number of inspectors and regulatory auditors and one hundred import specialists devoted entirely to commercial fraud work should be distributed as needed in district offices across the United States. The Congress should specifically require that the positions vacated by these employees be filled. Further, all agents assigned to these units should have no less than two years of experience in fraud and all employees so assigned should receive a temporary grade increase. If their performance is satisfactory for two years, the increase should become permanent. The estimated cost of this program is $16,000,000.
- Additionally, $1,000,000 should be set aside annually for training and communication purposes to develop these individuals into crack teams capable of doing extensive proactive work.
- Additional monies will also be required to pay informants and moiety. Support functions and travel cost may not be sufficient in the previous estimates. Therefore, an additional $1,000,000 should be set aside for contingencies.

This total increase of $29,300,000 dedicated to commercial fraud does not represent a huge increase in personnel over that which was planned by the U.S. Customs Service itself. In a letter to me dated September 19, 1983, Commissioner Von Raab explained that commercial fraud efforts included a Headquarters contingent of five agents, four import specialists, one inspector, one program analyst, one computer specialist, and two clericals. The forty district fraud teams consisted of forty-six agents, twenty-four import specialists, eight inspectors and two auditors. He further stated that the number was expected to double in 1984.

Based on Commissioner Von Raab's figures, a total of 102 special agents, fifty-six import specialists, eighteen inspectors, eight other specialists and four clerical support personnel would be required for Operation Tripwire in 1984. My suggestions for Fiscal Year 1985 would add only forty-eight agents, forty-two import specialists, twenty-four inspectors, regulatory auditors and other specialists to the program.[1]

However, these positions, when they are actually filled, are currently funded by rotating people out of their present positions. Thus, they are viewed by the individuals as temporary assignments. By institutionalizing the job assignments, expertise and enthusiasm can be developed. Given the demands on Customs personnel, it is doubtful that commercial fraud will continue to receive priority without additional dedicated funding.

I have serious doubts that even the level of funding suggested above would be sufficient. The General Accounting Office, which is currently studying the cost-effectiveness of the reduction of import specialists, should be requested to perform a complete review of the program after one year of operation at this funding level.

Moreover, I am certain that the program will pay for itself many times over. Calvin White, director of Operation Tripwire, testified that during calendar 1983, the commercial fraud effort of the Customs Service resulted in the collection of about $31 million in fines, penalties and forfeitures on an expenditure of about $2.8 million exclusive of salary costs. Thus, the Customs Service recovered over $11 for every dollar spent on commercial fraud activities, clearly a prudent use of the taxpayers' money.

More importantly, the interdiction of illegally priced goods, restricted merchandise and contraband may well convince our foreign competitors and their American co-conspirators that U.S. trade laws and other statutes and regulations cannot be violated without substantial risk.

There are several other areas which I would hope this Subcommittee might consider. In terms of budget items, our investigation suggests the following improvements need to be made in the operations of the Customs Service:

- The corps of import specialists should be increased to 1,400. This would be exclusive of those assigned to commercial fraud teams.
- The inspector corps should be increased to assure that all packages and containers of restricted merchandise and a much larger sample of other shipments are examined.
- Provisions should be made for equipment to analyze all questionable goods. Scales should be installed for heavy

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[1] The dollar amounts included in my estimates are considerably higher than the Customs Service figures of $42,200 per inspector, $53,100 per import specialist, and $57,900 per special agent which include only salaries and benefits. My estimates of $150,000 per special agent overseas, $100,000 per special agent in the United States, $70,000 to $80,000 per import specialist, inspector and regulatory auditor are based on rules of thumb employed by Customs officials to include facilities, vehicles and other equipment, clerical support and travel costs.

tonnage quota items. Also, lab facilities and other analytical equipment used to test for such factors as fiber content or chemical composition, should be upgraded.

-- Bonded warehouse officers and the Customs lock system should be restored. Provisions should be made to inspect goods imported into the U.S. for reexport, both at the time of entry and departure. Foreign trade zones should come under special scrutiny.

It should be emphasized that the $29.3 million which I believe is a minimum for the commercial fraud program should be over and above the $686 million authorized by the House Ways and Means Committee. Additionally, I believe that a very good case can be made for the addition of $12.6 million for five hundred bonded warehouse inspectors (with two hundred positions paid for by reimbursement from warehouse proprietors). Specific, additional appropriations for the air interdiction and Exodus programs are also justified.

The Subcommittee's findings and my recommendations are fully consistent with the judgment of the Customs Service itself in its initial budget requests.

In June 1983, Customs submitted three alternative budgets to the Treasury Department, the reduced level, the current services level and the bureau request level. The reduced level, $606.7 million, reflected a cut of nearly six percent from the amount necessary just to maintain operations at the Fiscal Year 1984 level. Under the reduced level, Customs estimated that cargo and passenger delays would increase, narcotic seizures would drop, revenue losses would occur, enforcement losses could amount to as much as $100 million in the value of seizues and $750,000 in recoveries from regulatory audits, and all ADP contract development support would have to be eliminated, which would result in an almost complete halt in the development of the Automated Commercial System program.

Despite these chilling prospects, the Administration proposed even deeper cuts -- the President's Budget asked for only $602 million for Fiscal Year 1985. The enormity of the proposed cuts can be easily appreciated by comparing them with the amount the agency said it needed just to continue operating at current levels -- $641.1 million. In other words, the President proposed a cut of about $38 million.

The Customs Service proposed a Fiscal Year 1985 budget of $739.1 million to the Treasury Department, about fifteen percent above the current services level. Customs said the increased funds would produce "tangible results" in a number of areas. Customs estimated that the following additional enforcement and revenue collection activities would result in Fiscal Year 1985 under the bureau request as compared to the reduced level:

--Five more enforcement actions per each 1,000 declarations by air passengers;
--480 more canine narcotics seizures;
--250 more narcotics seizures by other means;
--200 more arrests;
--1,480 more Class I investigations;
--Fifty more audits;
--3,000 more importer visits;
--Ten percent greater response rate to field requests; and
--520 more legal matters disposed of.

The value of the fines, penalties and forfeitures of such a program would far outweigh its cost. The deterrent effect, while impossible to calculate, would be great. But unless the budget of the Customs Service is increased substantially, these will be enforcement actions that should have, but did not, take place.

AIRPORT AND AIRWAYS DEVELOPMENT ACT

Mr. VON RAAB. I didn't mean to be his introducer. [Laughter.]

Senator ABDNOR. That's all right. You reminded us of it. I almost forgot it.

The budget proposes a reduction of almost $7 million as a result of the amendment of the Airport and Airways Development Act, which will in effect charge airlines all overtime costs for processing passengers.

I don't believe this legislative proposal will be enacted this year. What will Customs have to do to absorb that amount of money? Will you have to RIF more people?

Mr. VON RAAB. Why don't you take that one?

Mr. POWIS. I think that is probably another item for which we will have to look for a source of funding, Mr. Chairman.

Senator ABDNOR. If you have any thoughts on it, we would appreciate it in writing, if you can submit us something.

Mr. POWIS. We will do that.

[The information follows:]

IMPACT OF NOT PASSING LEGISLATION TO AMEND THE AIRPORT AND AIRWAYS DEVELOPMENT ACT

The amendment of the Airport and Airways Development Act was incorporated in the budget because the Customs Service believes this action is justified and would in the end provide for better and more efficient service. The Grace Commission supported and recommended that Customs implement this program.

If this proposed action is not accepted by the Congress, then Customs would face a shortfall of $7 million in fiscal year 1985. Customs options for responding to this problem would involve implementing reductions in various inspection and commercial programs, cutting back on hiring in fiscal year 1985, and delays in recruitment for vacant positions.

1983 OVERTIME EXPENSE

Mr. VON RAAB. I might suggest that it is a good idea that——

Senator ABDNOR. Oh, I am not arguing. I don't know how I would vote on it yet, but I don't think I am going to get a chance.

What was your overtime expense in 1983?

Mr. VON RAAB. As you know, we have two kinds of overtime, 1911 or reimbursable overtime, and nonreimbursable overtime.

In 1983, we had 40 million dollars' worth of 1911, or reimbursable overtime, and just about $32 million of nonreimbursable overtime.

Senator ABDNOR. What does it look like for 1984? Do you have any thoughts on it?

Mr. VON RAAB. We are projecting a moderate increase of approximately $2 million, to bring us up to a total of $74 million.

Senator ABDNOR. Then because of this, what do you have built into 1985 as you look into that budget?

Mr. VON RAAB. We are projecting $77 million.

Senator ABDNOR. You do have that in the budget now?

Mr. VON RAAB. Only the nonreimbursable amount will be in the budget.

Senator ABDNOR. That is that——

Mr. VON RAAB. Of course, a lot of the nonreimbursable would not have to be in the budget if some of these bills are passed.

Senator ABDNOR. Well, that is a good thing to keep in mind, I guess, as we go along.

SURETIES

My last question, and I know you will be relieved: Customs is looking into eliminating sureties. Could you briefly outline why?

Mr. VON RAAB. Today Customs is holding its first public hearing to listen to a number of executives of surety companies, as well as brokers and importers, to discuss our 100-year-old Surety Program.

For approximately 100 years, the Customs Service has required that the money, or penalties that might result from importations, be secured by a surety, which is an underwriting or a guarantee from someone other than the importer.

These are required regardless of the credit rating or of the business history of the importer.

We are taking a look at this entire program to see whether it involves unnecessary paperwork in terms of having to go through the business of creating a surety bond, and whether we can eliminate sureties in some cases. Surety companies make about $10 million a year from their issuance of sureties for Customs purposes.

These are additional costs to the importer. We are having a completely open—and I hope thorough—review of this practice of requiring sureties, the end result of which may be to make a change. For example, it may be decided that any importation under $1,000 will not require a surety bond, or perhaps any importations made by brokers or importers with a good business history will be released from having these sureties.

It is a full-scale publicly conducted examination of our practices dating back to about 1860, in requiring surety bonds.

Senator ABDNOR. Fine. We will be anxious to see how you come out.

Mr. VON RAAB. It is very interesting. It really is.

Senator ABDNOR. Will there be more hearings yet?

Mr. VON RAAB. We hoped to finish them today. There are approximately 10 individuals who have appeared, or 10 firms that have appeared at the public hearing, and we have about 100 comments in addition to that. So it is a very interesting exercise.

Senator ABDNOR. I will bet it is. Thank you.

There are other questions, not only from myself and Senator DeConcini, but other Senators on the committee and on the Appropriations Committee, which we will submit to you in writing for a written response.

So with that, we will close out this portion of the hearing. I am sure some of you gentlemen will be happy to get out those chairs because we are going to have Commissioner Nelson of the INS come up. He is here with us now, and we appreciate the fact he was willing to come down and join you, Commissioner von Raab, in reviewing the current status of the border consolidation plan.

So with that, I will excuse the rest of you and say thank you very much. We appreciate your fine testimony, and we know we have kept you here a long time.

Mr. Powis. Thank you, Mr. Chairman.

DEPARTMENT OF JUSTICE

IMMIGRATION AND NATURALIZATION SERVICE

STATEMENT OF ALAN C. NELSON, COMMISSIONER

ACCOMPANIED BY:
COMMISSIONER WILLIAM VON RAAB, COMMISSIONER OF CUSTOMS
MICHAEL LANE, ASSISTANT COMMISSIONER FOR INSPECTIONS, U.S. CUSTOMS SERVICE

OPENING STATEMENT

Senator ABDNOR. Thank you all, again, for being with us today, and I, for one—and I am sure all of the committee—would like to hear how we are progressing on the consolidation plan, or the reorganizing. We will ask you to walk through it with us and give us a little better understanding, because it is going to be something we are going to have to deal with down the road as we make our plans for the budget here.

Commissioner Nelson, do you care to start?

Mr. NELSON. Mr. Chairman, I am pleased to have an opportunity to appear along with Commissioner von Raab, and have an opportunity to discuss this issue.

We just got word at the end of the day yesterday that you might be interested in having us be here, so we did not prepare any testimony, per se. I know Mr. von Raab has the package of material that has been distributed to you, all members of your committee, and many other interested congressional leaders. I know there had been some discussions earlier in your hearing today, and I have not been here very long, and so I did not hear those. I personally have had the opportunity to meet with Deputy Commissioner DeAngelis and other representatives of Customs, other representatives of INS, with a number of Members of Congress, Senator DeConcini for one. I met with Chairman Roybal and his people informally.

We have had a formal hearing before the Immigration Subcommittee in the House. There have been other meetings, and I know you personally have been involved, also, so we feel from an administration point of view that we have gone about this in a very deliberate and thorough process, both in terms of development of the plan, and I might go back to that in a moment, and the presentation of it.

As I say,, with these various meetings, and, of course, with briefings of staff of all the relevant committees, we have laid out all the issues, and our thought process, and the conclusions we have reached, and we have made it clear that we are going to be coming forward with appropriate legislation, preferably the reorganization authority, should the Congress pass that out. We think that is the appropriate vehicle for this plan.

So we have gone through the informal consultation, the more formal consultations such as this hearing, and the formal presentation that will come in the near future, depending on legal authority on reorganization.

We think it has been a good process. I know there has been a lot of difference of opinion, a lot of views expressed pro and con, but I might go back just a little. I think Mr. von Raab and I arrived on the scene about the same time a few years ago, 2½ or 3 years ago. We have had to face a lot of the issues that have existed in this field.

Everybody says there is a problem, it seems, that we have duplication, inefficiency, need for administrative improvement, need for some form of consolidation, and all the various things, and that includes congressional committees, which have made it clear to OMB and others that, "By golly, something needs to be done about this." It has been 40 years or more in the offing, a lot of different proposals, and most frequently they haven't made it for a lot of varying reasons, turf problems and special interest groups and others.

Mr. von Raab and I and our staffs and our bosses have participated, certainly, in many, many hours of time, effort, reports, and analyses that are probably 2 or 3 feet high, exploring many options, came up with a compromise plan, and it is that. But we think it is a very workable plan, because it gives the prime responsibility for inspection, for primary inspection, to one agency or the other at the various airports, seaports, and various land border ports.

It makes sense. There are also Customs patrol aspects of the border that make sense. You can—anybody can—pick at it and find problems, but we think it is difficult to come up with a better solution that makes sense, is operational, and is feasible.

Again, I don't think you could have asked for a more deliberate process. As you know, Secretary of Treasury, Attorney General, personally approved this. It has gone to the Cabinet, has been reviewed there, and presented by the Deputy Director of OMB, the Cabinet Council, and now the President of the United States has personally approved it.

So it has been through the process, and we think it is a good plan, and all we can ask is that Congess give a fair, objective analysis to it, and a review.

We think if you do that, you will approve it. I think the people who have opposed it, when you cut through it, have generally had some very narrow special interests. There are important interests—there is no question about it—the unions, for example. We think in that area that we have gone as far as you can go in making clear that there will be a very, very minimal impact on any employee.

So we think those concerns are really not valid. We know there is a lot of support on the other side, by the air industry, and airports, truck-ing groups and other transportation groups, and we think it is very effective.

One other area, and I know it has come up, I know Senator DeConcini has raised this question, and I would like to make a few comments, and that is in the drug area. There is no question that INS, along with Customs and DEA, currently does a lot of drug-related work.

Senator ABDNOR. What kind of training do your people have in searching for drugs? Do you have pretty extensive training grounds? Up to this point, your responsibility has been mostly in other areas, has it not?

Mr. NELSON. Yes, sir; but on the other hand as part of the apprehension—first of all, we have a 17-week detailed training course for all new border patrolmen, for example. It is very extensive.

Senator ABDNOR. What, 17?

Mr. NELSON. Seventeen weeks, including fluency in Spanish. We are the only Federal agency that has that, and that is certainly significant on the southern border, in any area, drugs, illegal aliens, or otherwise. They do work—they have extensive law-enforcement training—they do work in conjunction with other agencies, Customs, DEA, and so forth, and do in fact apprehend a great deal of drugs, sometimes——

Senator ABDNOR. This drug problem is getting so serious and is destroying America in many ways, as it is in other countries I was in, or maybe I come away extremely aware of this, more than the average. But it is such a big subject that I think that has got to be the No. 1 problem. I do not think you have time to be thinking about people sneaking in illegally, or anything else, when you are dealing with something like drugs, or these illegal products. That is a lesser one to me, but at least it doesn't destroy lives. It may break a business, but it doesn't ruin families and ruin lives like drugs do.

The tougher we get, the tougher it gets to attack it. It is a constantly mobile, moving thing that comes under all forms and ways.

These contraband teams, are you going to have them down there, and is that all they are going to do, to be sniffing out and looking out? I mean, they are not going to worry about the aliens coming across now. That is another problem. We are not worried about that. We are worried about what is coming through, and I want to make sure somebody has those teams who are going to go in there and check out things like that.

Are you going to have that?

Mr. NELSON. I am not sure on the contraband teams. Obviously, Customs is still involved. I think I might make two points. One is, first of all, and I have already touched on the training, that we are involved already in the drug business, and we have a lot of expertise. We work in conjunction with the other agencies.

The other is that there still will be a joint involvement of the two agencies, so it is not a case——

Senator ABDNOR. Wait a minute. You will do that on the border, once you take this over?

Mr. PETERSON. Well, we will have the primary responsibility on the border, but the third point is, if I might mention it, Mr. Chairman——

Senator ABDNOR. Go ahead.

Mr. PETERSON [continuing]. In the illegal alien traffic and smuggling, there is often a lot of interrelation between illegal aliens and drugs. You can't separate those as two entirely different situations.

Now, part of the overall consolidation plan is, obviously, there will be some need for additional training of INS people in certain areas, and Customs people in other areas, so we are recognizing that there are things, but I think some of the allegations that we have no ability to deal with drugs are——

Senator ABDNOR. I didn't really mean that. I just wanted to—that is not my purpose. They ought to concentrate on it. That is great. That is just one part of what you are there for now.

As a matter of fact, we must think aliens are going to be a huge problem, because you were given, as I understand your budget, considerably more numbers in there to try to stop that. Somewhere along the line I am concerned that that is going to remain the No. 1 concern, and I suppose it should, but I don't want anything to lessen our determination to stop drugs from coming in.

Mr. NELSON. There is no expectation, Mr. Chairman, that this consolidation proposal in any way will lessen—in fact it will enhance—the ability to do that. We also work with DEA very closely, of course, being part of the Justice Department, and they, of course, are main players in this drug war, also.

In DEA, and it might be appropriate for the committee to have them up here and ask them about this thing.

Senator ABDNOR. Sure.

Mr. NELSON. Because I think that is important.

Senator ABDNOR. But you are going to be adding 1,000 new employees, that manpower, if the budget goes through.

Mr. NELSON. That is true.

Senator ABDNOR. And you are going to be told that one of our biggest jobs here is to stop drugs, and you are going to see that they get all that extra training, because I assume that is what it is going to take. Because if they find any weak spots along the line, they will puncture it very quickly on land as they will by sea and by air. It has just got to be stopped.

Mr. NELSON. We fully intend to. As I say, there is probably a lot more involved now than is commonly realized.

Senator ABDNOR. Yes; I realize what a working over we gave our commissioner here for the last couple of hours.

Mr. VON RAAB. I am resting. [Laughter.]

Senator ABDNOR. That shows how strongly we feel about it.

Mr. NELSON. We are pushing in some fresh troops here.

Senator **Abdnor**. He is relieved to have you here.

Proceed. I am sorry.

Mr. **Nelson**. I think that really concludes the general comments. We would be pleased to get Mr. von Raab back into the foray here. We will respond to any questions you may have.

Mr. **von Raab**. I agree with Al Nelson's statements. The work has been done in the executive branch, and it is now being presented to the Congress for its critique and approval. We feel that it is a good job, and we are now making ourselves available to respond to questions like this.

Senator **Abdnor**. Well, I guess I am not at that place where I am well enough versed to be doing that. But the plans have all been made now, is that right? I mean, it is all before us, what we are going to do and how it is going to be played?

Mr. **von Raab**. I think that probably there are still the administrative—I don't know if you call it the administrative aspects—but there are documents that would have to be prepared that would reflect the legal aspects of this consolidation.

We have to open formal negotiations with the unions, and then probably formally present the plan to Congress.

Senator **Abdnor**. Are there any problems there with the unions?

Mr. **von Raab**. Well, we have been trying to take this step by step, so we have informally—is that correct?—we have informally dealt with the unions and with Congress so that, you know, we would give them an opportunity to respond when they were approached formally. The same with you. At some point you will receive a formal request to move on this.

Senator **Abdnor**. Do you feel that—apparently they were opposed to it, were they not?

Mr. **von Raab**. I don't really know. We don't know that. I am not trying to get semantic here, but we don't know that until we formally ask them. I believe that someone told me that their testimony before some committee was evidently a negative attitude, but I am not sure that that is their final—it is not their final or formal position, beca;se we haven't actually asked them for their formal position, and until we do we can't say that.

Senator **Abdnor**. Inasmuch as we are a part of that, I may want to ask them for their statement, because I want to hear all sides of this before we proceed.

Mr. **von Raab**. Just so you know exactly where we are, we have basically given them the same package that you have been given.

Senator **Abdnor**. Good.

Mr. **von Raab**. And informed them that we are working on it and will be continuing to work with them on it, and at some point would be presenting them a formal notification of our intentions.

Senator **Abdnor**. Very good. I am sure before we get done there will be other questions to come up.

We have kept you here about 2 hours and 20 minutes. We will conclude our hearings, but I do want to thank Mr. Nelson for coming over here. We really had no right to expect you to do it, but we appreciate your willingness to do it. That is the kind of spirit we are going to need around here to make this whole thing work.

We do thank you for that.

[The following questions were not asked at the hearing but were submitted to the Department for response subsequent to the hearing:]

ADDITIONAL COMMITTEE QUESTIONS

Operation Greenback

QUESTION: Has Operation GREENBACK had a positive impact?

ANSWER: Operation GREENBACK has had a significant impact on major organized criminal groups in South Florida and the United States, as evidenced by the below listed statistics:

Operation GREENBACK (Established January 1980)

	To Date
a. Arrests :	167
b. Indictments:	214
c. Convictions:	98
d. Currency Seized:	$37.9 million
e. Property Seized:	$11.3 million
f. Narcotics Seized:	
Cocaine	66.6 Kilos

GREENBACK initiated investigations have disrupted major narcotics smuggling organizations, as well as, associated money laundering groups. This program has set the standard for innovative investigative techniques, as the criminal groups have become more sophisticated in their methods of doing business. And, financial institutions are now significantly more aware of the reporting requirements under Title 31.

QUESTION: Will Operation GREENBACK be affected by the cutbacks?

ANSWER: The proposed FY 1985 reductions are not directed to any investigative program. Operation GREENBACK resources will not be reduced. Cutbacks would adversely impact current and future investigations. The cases initiated by GREENBACK are complex, manpower intensive, and require expensive electronic surveillance equipment. Therefore, the key to GREENBACK's success has been long-range planning, flexibility to modify goals as the investigations develop, and appropriate resources.

Border Processing Improvement Plan (BPIP)

QUESTION: What is the Border Processing Improvement Plan (BPIP)?

ANSWER: BPIP is a plan developed in response to the need for improved processing of vehicles, passengers, and pedestrians at land border crossings. Faced with an expanding workload, Customs can not continue with traditional approaches (more lanes, more ports, etc.) but must turn to innovative approaches. BPIP is an adaptation of techniques used successfully at airports. BPIP began in June 1983, with a review of arrest and seizure statistics to establish vehicle and violator profiles. Successful inspectors were then interviewed to determine successful enforcement techniques and those techniques together with profiles, proven questioning methods, and behavioral analysis were incorporated into a training plan for land border inspectors. The plan was tested in a series of 13 one-week trials at nine different land border ports over a four-month period (September 83 - December 83), and was highly successful in all aspects. This plan to improve border processing has been successful in every phase and, in some cases, far beyond expectations. Enforcement effectiveness improved from two to five times the norm at participating ports. For example, at Laredo, the ratio of manhours of the BPIP team per seizure was 15.5 as compared to the port ratio of 74.9 manhours per seizure. Facilitation was enhanced at ports with traffic back ups. At San Ysidro, traffic moved through the BPIP lines at an average 22 percent faster rate than the port-manned lines.

QUESTION: How does the Border Processing Improvement Plan (BPIP) Work?

ANSWER: BPIP expands the traditional two-person inspection team (primary and secondary officers) to include a third member, an officer who moves freely between and across incoming traffic lanes in front of the primary inspection stations. This "rover" supplements the primary officer by identifying vehicles and/or people as high-risk for enforcement or as low-risk for facilitation. All the team members utilize a clearly defined 5-step methodology which consists of:

- assessing the smuggling threat at their location.
- profiling the average, or honest, traveler.
- profiling the smuggler.
- examining documents.
- questioning the traveler.

Under BPIP, inspectors learn the conditions which produce stress in people and to identify stress symptoms which may indicate deception, including verbal, non-verbal, voluntary and involuntary indicators. The techniques work. BPIP teams consistently out-performed other port personnel at rates as high as five to one (enforcement actions versus manhours utilized).

QUESTION: If the Border Consolidation Plan is approved, will these highly trained people be transferred to INS?

ANSWER: BPIP training has been extended to all land border Customs inspectors and its concepts will be continuously refined and used in the future. Inspectors will be transferred to INS depending on the established criteria, without regard to their proficiency in BPIP.

Automated Cargo Clearance and Enforcement Processing Technique (ACCEPT)

QUESTION: Could you briefly explain what ACCEPT (Automated Cargo Clearance and Enforcement Processing Technique) is and how it works?

ANSWER: ACCEPT is an automated entry screening system that aids Customs officers in identifying high-risk cargo shipments. The system checks three elements (importer, commodity, and country of origin) of an entry against a criteria file. The elements are checked separately and in combination. If there is a match against the criteria file, the shipment is designated for inspection with specific examination instructions. Entry documents are reviewed by a Customs officer who may override the system's designation. Under ACCEPT, a high percentage of all shipments are released without physical inspection by Customs.

Centralized Appraisement

QUESTION: Centralized appraisement is once again a proposal. Phase I projected 13 locations be consolidated. Have they been? What has been the impact? Does Customs plan to pursue centralized appraisement? What is needed to garner public acceptance? Better PR? Can you prove better productivity and cost savings?

ANSWER: A total of 9 locations have been centralized. Four other locations have had either a reduction of import specialists and/or centralized under the district. These latter locations will be fully centralized in the next phase. In addition, 5 locations were centralized by attrition prior to Phase I.

It has worked effectively. Cargo release and other services to the public have not been affected.

Yes, Customs is currently under constraint to centralize further. When this constraint is lifted and the timing is feasible, Phase II will be implemented. A total of 10 locations plus the 4 from Phase I, will be included in this Phase II.

Perhaps a Register Notice and public hearings are needed. The more the importing trade become educated on the reasons for centralization, the better will be the acceptance.

The fact that we are processing the same workload with fewer people, and in just as effective a manner, proves better productivity and cost savings.

QUESTION: If centralized appraisement is totally completed, what happens to import specialists? They will not be necessary any longer, will they? One can do the job of many? How many will there have to be rifed?

ANSWER: The import specialists in the remaining ports would stay at those locations. The ports that are centralized would transfer some import specialists to the receiving ports along with the workload. Based on our earlier experience with centralization some import specialists will choose to retire, others could convert to vacant positions such as Inspector positions in the centralized port or to Import Generalist positions.

Import specialists will be necessary in order to cope with the complexities of the workload. Import specialist expertise is necessary for control of such varied and important programs as quota, dumping and countervailing duty, ITC exclusion orders, steel, textiles, visas, and fraud detection.

There are economies of scale. The more the workload is centralized the more uniformity of administration, the less duplication and overhead, the more the expertise in commodity lines are gained.

This would depend on the pace at which the program is implemented. Experience with Phase I showed no rifs.

Fraud

QUESTION: Is the Customs Laboratory Mobile Metals Analyzer program used for steel?

ANSWER: Yes. A Mobile Metals Analyzer, supported by the New Orleans Laboratory, has been in operation in the South Central Region for the dockside screening of steel imports to assist in the detection of steel fraud, the enforcement of quotas, and the determination of proper tariff classification. The device is particularly well suited to analyze alloyed steels to detect small quantities of such alloying elements as chromium. Recently, the Mobile Metals Analyzer was temporarily transferred to the Los Angeles area to be used in Operation Tripwire for steel.

Trademark

QUESTION: What is the status of "gray market" regulations? Are we going to see any movement in the near future? Why?

ANSWER: The Department of Treasury has not approved the proposed changes to the regulations. It is anticipated that a notice will be published soliciting economic data from the public. This is a result of questions and concerns raised by other government agencies who felt that there was not enough economic data developed for the public to fully understand the issue.

QUESTION: As you know, Congress has special interest in Steel and Textile fraud. What enforcement effort is being placed on these two commodities? Is that enough? Can we do more?

ANSWER: As two of the four cornerstones of Customs "Operation Tripwire" program, both steel and textiles have been the subject of special task force operations. In October 1983, a textile task force was started in New York. Its success has mandated continuance for a full year. In January 1984, a similar task force was started in Los Angeles. Its success rate was not as high and it is being terminated. The Los Angeles Textile Task Force is being superceded by a Steel Task Force similar to the ones in Portland, Oregon, and in the New Orleans/Mobile areas.

There are currently 62 Class I steel and 80 Class I textile investigations being conducted around the country. While there are at least four more major targets in the pre-Task Force stage of investigation their needs will be met, providing funding is adequate. It is anticipated that with a larger pool of trained manpower, we would be able to pursue more expeditiously some investigations which must be delayed.

In the 6 months of this fiscal year, Operation Tripwire has accounted for the indictment of 29 firms and/or individuals with a recovery of some $3.3 million. The bulk of these are in the steel and textile areas.

The impetus of the textile task force has resulted in some $6 million in seizures of falsely entered goods since its inception. In textiles alone there have been 6 criminal and 39 civil prosecutions instituted.

QUESTIONS SUBMITTED BY SENATOR DENNIS DECONCINI

Trademark

QUESTION: Under existing regulations and policies, it is my understanding that the Customs Service will only enforce Section 526 of the Tariff Act of 1930 in instances where there is no financial connection between the foreign and domestic owners of a trademark. Is that essentially correct?

ANSWER: That is essentially correct. Customs excludes the importation of merchandise bearing genuine trademarks under section 526 of the Tariff Act only where the trademark rights in the U.S. are owned by a company independent of any foreign owner of the trademark. There is no Customs prohibition of the importation of merchandise bearing genuine trademarks in the following situations.

1. Where the foreign and the U.S. trademark are owned by the same person or business entity.
2. Where the foreign and domestic trademark owners are parent and subsidiary companies or are otherwise subject to common ownership or control.
3. Where the articles of foreign manufacture bear a recorded trademark applied under authorization of the U.S. owner.

QUESTION: As I read Section 526 of the Tariff Act of 1930, I can find no basis for implementing its provisions differently based upon whether the American firm importing the trademarked goods has or does not have a financial relationship with the foreign trademark owner. Just so we all understand which provision we are dealing with, let me quote Section 526 for you:

> "[I]t shall be unlawful to import into the United States any merchandise of foreign manufacture if such merchandise...bears a trademark owned by a citizen of, or by a corporation or association created or organized within the United States, and registered in the Patent and Trademark Office by a person domiciled in the United States... and if a copy of the certificate of registration of such trademark is filed with the Secretary of the Treasury,...unless written consent of the owner of such trademark is produced at the time of making entry."

I find no mention in that section of any distinction between American companies based upon foreign affiliation. Am I correct in not finding such a distinction in the language of the statute?

ANSWER: The longstanding Customs interpretation of the language is based on the legislative and litigative history of the section. Being forwarded under separate cover to this Committee is the brief filed by the Justice Department in the Court of International Trade in Vivitar vs. United States. This provides a more complete analysis of the Customs position on the issue.

QUESTION: If, then, we can reasonably conclude that, on the one hand, the statute clearly states that if an American company owns the American rights to the trademark of a foreign-made good no one else can import that good into the United States, but that, on the other hand, the Customs Service follows a policy of enforcement which establishes two categories of American companies---that is those with foreign affiliation and those without---then a major inconsistency exists. Indeed, it occurs to this Senator that the Customs Service may well be violating the law by not carrying out the mandate of the statute. Would you comment on that, please?

ANSWER: Because of the longstanding Customs positions based on the history of the section we do not agree that the legislative and litigative mandate of the law is absolutely clear. Section 526 has been the subject of litigation in the past, as well as considerable discussion in legal publications. It is currently the subject of litigation in the Court of International Trade and other courts.

QUESTION: It seems to me that the Customs Service has created something of a dilemma for itself and that there are only two possible solutions. The first would be to ask Congress to change the Tariff Act of 1930 and rate two classes of American companies so that the enforcement policies of the Customs Service are consistent with the law. The other---and the one this Senator strongly believes should be undertaken immediately---is to change the regulations under which the Customs Service is operating so that they comport with the law.

ANSWER: The Customs Service does not believe it is in a position to recommend legislation. Other Government agencies interested in the so-called "gray market" problem believe more economic data need to be developed so that everyone will have a better understanding of "gray market" trade on trademark owners, businessmen engaging in this trade, and consumers. We also believe that it would be inappropriate for Customs to propose amending regulations in view of the longstanding Customs practice and the pending litigation.

QUESTION: It is my understanding that the Customs Service has already seen the error of its existing regulations and has proposed new ones to amend 19 C.F.R. 133.21 to extend to all American companies, regardless of foreign affiliation, the same privileges with regard to the importation of trademarked goods as are now enjoyed by non-foreign-affiliated domestic corporations. Is that correct?

ANSWER: Prior to commencement of litigation on this issue, the Customs Service did draft a notice of proposed rulemaking to amend section 133.21 of the existing regulations. That does not necessarily mean the Customs Service was irrevocably committed to making such a change.

QUESTION: It is also my understanding that the Treasury Department is withholding approval of the publication of these proposed regulations in the Federal Register. Is my understanding correct?

ANSWER: The Treasury Department did not approve the proposed draft regulations.

QUESTION: Can you shed any light on the Treasury Department's reasons in view of the fact that the existing enforcement policies are, on their face, contrary to the law?

ANSWER: Our understanding is that the Treasury Department believes that the longstanding Customs practice should not be changed based on the longstanding legislative and litigative history.

QUESTION: It has been suggested that the Treasury Department's reluctance is the result of direct political pressure. Do you believe this to be the case?

ANSWER: No. There is, of course, great interest in this question in Congress, in other government agencies, and in the business community. Customs and Treasury have received numerous letters on both sides of this issue. However, I do not believe that political pressure was the cause of Treasury's decision not to approve publication of the notice of proposed rulemaking.

Consolidation

QUESTION: On February 10, 1984, the Customs Service published a rule in the Federal Register concerning a change in status of the Bridgeport, Connecticut, Customs Office. Is there a cost savings associated with this proposal? If so, would you please provide a detailed explanation of how these savings would be achieved?

ANSWER: The cost savings associated with the elimination of the Bridgeport District Office are estimated to be in excess of $125,000. By effecting this management action Customs will eliminate two Assistant District Director positions and a support position. While these positions are presently vacant, if Customs were required to operate Bridgeport as a District rather than a Port, these costs would be incurred.

QUESTION: Would there be any immediate impact on personnel now in Bridgeport or Hartford? If in the future the Customs Service decided either to make staffing changes or service changes in the former Bridgeport District, would the Service be required by law to issue public notice of its intent to make these changes?

ANSWER: Since the positions in Bridgeport have been vacant and Hartford remains an active Customs port as in the past, there will be no impact on personnel at either location.

Customs is required by law to issue public notice of our intent to make service changes affecting our operations. However, staffing levels which are, of course, based on workload factors may be changed without any public notification.

Border Consolidation: Inspector Plan

My overriding concern over the Administration's proposed border consolidation plan is the effect the plan could have on narcotics interdiction at the land borders. I am informed by staff that the INS union opposes the plan, and the Border patrol union opposes the plan for one major reason--they do not have the manpower, the training, or the equipment at the land borders to deal with drug trafficking on top of their other major alien documentation job at the airports and seaports.

INS personnel are not experienced nor specially trained in drugs--they are trained to process aliens. On the other hand, Customs has nearly 200 years of experience in profiling smugglers and they have a huge 3:1 edge over INS in inspectional personnel.

QUESTION: In view of the opposition to the plan by the INS rank and file and Customs getting out of the primary drug inspection business, what specific iron-clad assurances were YOU given, or can you give us that narcotics enforcement at the land borders will not suffer under the current Administration consolidation plan?

ANSWER: At the land border ports, INS primary inspectors are experienced in drug interdiction efforts. Similarly, Customs inspectors have been responsible for many INS apprehensions. At primary inspection, cross-designated Customs and INS officers have worked side by side performing the same functions for both agencies. In view of this, and in view of the additional training that will be given by Customs during consolidation, narcotics enforcement should remain at a high level. Customs will be closely monitoring enforcement efforts and results in order to resolve any problems which might surface in the enforcement area.

Border Consolidation: DeConcini Compromise Plan

Commissioner, it seems to me that if we are not going to put all primary inspection into one agency then the following plan makes the most sense:

1. Give primary inspection to Customs at the airports and seaports.

2. Keep the status quo at the land borders.

3. Transfer no positions from INS to Customs or Customs to INS.

4. Give this plan a two-year life, subject to review and change at the end of fiscal year 1986.

This plan would address the No. 1 goal of the plan as outlined to us, i.e., facilitate passengers through our airports by providing one agency to deal with at airports; it keeps INS in its traditional role at land and airports, i.e., processing aliens; and it does not force Customs or INS to give up any positions. Also, INS is one of the year's big budget winners with 1,000 new positions headed their way next year, while Customs would lose 1,000.

QUESTION: Why doesn't this plan make more sense than the hybrid plan OMB has endorsed?

ANSWER: Both plans provide the same solution for the problems we face at major airports. We believe that either plan will result in the increased facilitation of passengers through our airports by consolidating primary passenger processing within Customs.

The compromise plan calls for maintaining the status quo at the land border; while our plan is designed to consolidate responsibility for land border primary within INS. Our consolidation plan creates single agency accountability for primary passenger processing and standardizes the federal inspection process at land borders while avoiding much of the overlap and duplication of effort found in the current dual agency system.

Our plan calls for the transfer of personnel between INS and Customs so that the personnel required to perform the function of primary passenger processing are administratively accountable to the agency assigned responsibility for the function, i.e., all personnel performing land border primary processing will be within INS, all personnel performing air and sea primary processing will be in Customs.

I believe the consolidation plan we have proposed addresses the fundamental problems inherent in the current dual agency federal inspection process while focusing the specific expertise of both agencies into the areas where they can have the greatest positive impact.

Border Consolidation: Lack of Consultation

As I understand it, none of the five options considered by the Cabinet Council for primary inspection were chosen. A "hybrid" plan calling for Customs and INS to split primary inspection duties at the ports was adopted and is before us. I also understand that the plan was conceived and approved without input from the Office of Drug Abuse Policy, the Vice President's NNBIS office, the State Department's International Narcotics Control office, DEA, the FBI, and other agencies involved in drug enforcement and immigration issues.

QUESTION: Why weren't these key agencies consulted on these matters and why was the current consolidation plan chosen over the other five?

ANSWER: The decision to adopt the current border consoldiation option was made by the Cabinet Council based on an overall review of all the options, proposals and arguments made by Customs and INS.

The option chosen focuses Customs and INS personnel and resources on those areas where the result and threat are most significant. At the same time, it strengthens both alien and narcotics enforcement by fixing responsibility and establishing accountability for both alien and narcotics enforcement at each and every port of entry in a single agency. The present system of dual inspection with its fragmented structure results in neither agency having the responsibility or capability to address the full range of problems encountered at a particular port.

Customs and INS staff in conjunction with OMB are currently developing a detailed plan to operationally describe the consolidation option chosen by the Cabinet Council. Upon completion you can be sure that the plan will be forwarded to those agencies involved in drug enforcement and immigration issues for their review and comment.

Border Consolidation: Facilitation of flow of passengers through ports of entry

One of the biggest selling points of the Administration's fragmented consolidation plan is that it will facilitate the flow of passengers through the ports of entry.

Yet, at airports the overwhelming majority of passengers currently is processed by one Federal inspector through both one-stop inspections and citizen bypass at most airports. At seaports, processing under the plan would not change much. At the land borders, Customs and INS are cross-trained and cross-designated and since there won't be any increase in inspection personnel at the border points, not much improvement will take place at the land borders.

QUESTION: It doesn't seem like your plan will do much new to improve passenger facilitation at our ports. Can you point to something that will prove otherwise?

ANSWER: Our proposed consolidation plan will have a positive impact on the facilitation of passengers through ports of entry. At airports, as you have stated, a large majority of passengers is currently processed by one federal inspector but a significant number of airports continue to use the two-stop dual inspection system. These airports include: Tampa, Dulles, Philadelphia, Baltimore, Orlando, St. Louis, Kansas City, Portland, San Antonio, Newark, Las Vegas, Detroit, and New Orleans. Under our proposed consolidation plan all air passengers will be processed under a one-stop inspection system.

At seaports we already have in place very efficient passenger processing systems, so that the gains to be achieved in passenger processing at these locations are small, if any. The positive results at seaports will be achieved in the clearance of commercial vessels and crew. Currently commercial vessels and their crews deal with both INS and Customs. Under the consolidation plan a single federal officer, a Customs Inspector, will process the vessels. This will provide a significant productivity increase for the government and a reduced cost of service for commercial interests.

Although no increase in staffing at the land borders is anticipated, the consolidation of primary passenger processing will maintain current facilitation levels while providing other important benefits. The transfer of responsibility for land border primary processing to INS will integrate critical border control activities within a single agency and provide an approach consistent with the growing need for increased border control over immigration.

Border Consolidation: Wait Until After the Olympics

During a March 16 hearing in Los Angeles on Olympic security, both INS and the Customs Regional Commissioner testified on the record that they would recommend the border consolidation plan be postponed at least until after the Olympic games in August.

QUESTION: In view of the fact that both INS and Customs feel that the plan should wait until after the Olympic games, can we count on you not to implement any plans until after August?

ANSWER: I can assure you that the U.S. Customs Service will not implement or begin implementation of any Border Consolidation plan until after completion of the 1984 Summer Olympics.

Border Consolidation: INS Worst Agency in Government

Let me read you a quote from a book called "The Tarnished Door", a book about our immigration problem that was written by the 1981 Pulitzer Prize winner, John Crewdson:

> "Overwhelmed by an enormous influx of legal and illegal aliens that had crippled its frail bureaucracy, hampered by a bare-bones budget, a victim of decades of inattention from Congress and successive administrations, shot through with nepotism, incompetence, corruption, and brutality, the INS was suffocating beneath a mountain of paperwork, its harassed staff badly demoralized by the hopeless task of plugging holes in a boat that was continually shipping water."

Crewdson goes on to call INS the worst-managed, least-effective, Federal agency in Washington.

QUESTION: Is this the agency that you personally are willing to turn over your land border law enforcement responsibilities to, at a time when drug trafficking along our land-locked borders is skyrocketing and our alien problem is unabated?

ANSWER: The inspectors of both Customs and INS have performed admirably over the years in their inspectional enforcement efforts not only for Customs, INS, and Agriculture, but also for the many other regulatory and law enforcement agencies.

Several recent innovations by Customs in inspectional procedures and techniques have produced improved enforcement results at land border ports of entry. Training in these areas will be given to all primary inspectors. There will also continue to be a contingent of Customs inspectors to conduct secondary examinations of vehicles and passengers.

Air Program: Vice President's Plan: P-3s

Commissioner, let me try to pin you down on the specific steps Customs and Treasury will take to fund the air program next year.

First, on the P-3s. The Vice President and Treasury have apparently agreed to continue doing what Congress told them to do in fiscal 1984--modify, evaluate, and operationally test the first of six P-3A aircraft with F-15 radar. Secretary Regan's memo of April 2 says that you will test the first P-3 through October and then decide whether or not to go ahead with the others.

QUESTION: Isn't this a backdoor way of saying that after the first P-3 is modified and tested, you intend to scrap the P-3 program and do something else? If you should decide to go ahead with the additional three P-3's in fiscal 1985, as Congress has directed, how will you pay for the Operation and Maintenance for them? Your present budget won't do it.

ANSWER: Our intention of testing the first P-3A and then deciding whether to go ahead with the others is not a backdoor way of saying that we intend to scrap the P-3 program and do something else. There are several very valid reasons for withholding a final decision on the P-3A program until completion of the Navy acceptance tests and the subsequent Customs operational evaluation.

All expectations for the P-3A/F-15 detection system, including its effectiveness and cost of operation, have been on extrapolations of Navy and Air Force experience with their own separate aircraft and sensors operated within their unique organizational environments. The operational evaluation will provide the first opportunity to measure these parameters for the P-3A/F-15 concept as executed by Lockheed and as operated and maintained by Customs. We believe it is appropriate to wait for such information before making a final commitment to the program.

The Navy acceptance tests to be performed on the east coast during June and July will ensure that the Lockheed design and modification work satisfy the requirements of the contract and that all systems function when they are activated. The operational evaluation performed along the southern border from August through November will measure the performance and utility of the system over the range of operational scenarios, terrain conditions, and targets typically encountered by Customs; identify improvements and corrections (such as the need for the IRDS) that should be incorporated in the subsequent aircraft for reasons of safety, performance or economy; provide data on reliability, maintenance needs, and costs for the system as operated by Customs; and develop the operational procedures and tactics for effective performance of the detection mission. When the operational evaluation has been completed, we will be able to describe, rather than assume, how the system performs and what it will cost.

Air Program: Siler Report Recommendations for Funding

Commissioner, you and Deputy Secretary McNamar seem to place great weight on the recommendations of the so-called Siler Panel that did a study of the Customs air program last year. Deputy Secretary McNamar pointed to the Siler Report as one reason for getting Customs out of the detection business. However, this same report recommended that Customs beef up its air program personnel from its current level of 250 to about 420 by 1987. It also recommeded beefing up its interceptor and surveillance capabilities and recommended a fiscal 1985 budget of $42.1 million in fiscal 1985 to get things started.

QUESTION: If you and the Department place such great weight on the Siler Report, how do you reconcile your inadequate air program budget with the staffing and funding recommendations of the Siler Panel? What portions of the Siler Report will you be able to implement with a $17.1 million budget? A $28 million budget? The DeConcini-Chiles budget?

ANSWER: With a $17.1 million air budget in FY 1985, Customs will be able to implement the following recommendations of the Siler Report.

- Operate and maintain the regular air fleet, including four leased Citations.
- Continue utilization of two Air Force ROCC sites through assignment of Customs personnel.

With a $28.1 million air budget in FY 1985, the following additional Siler Report recommendations could be implemented:

- Operate and maintain one P-3A, four Black Hawk helicopters, and four Cobra helicopters.
- Lease the Bahamas aerostat.

With the $45 million DeConcini-Chiles budget in FY 1985, the above Siler recommendations and the following additional recommendations would be implemented:

- Acquire initial equipment for utilization of the two ROCC sites.
- Modify and install small airborne radar (e.g., APQ-153) in four tracker aircraft.
- Operate and maintain up to eight new sensor-equipped interceptor/tracker aircraft.

- Test and evaluate High Frequency/Single Side Band (HF/SSB) privacy radio system.

Air Program: Aerostat Balloon

An important part of the air program is the aerostat radar balloon in the Bahamas. The Vice President has apparently turned Mr. McNamar around on this issue and stated that the aerostat should be acquired immediately. The Secretary's memo also indicates, however, that a decision will be made later as to whether outyear funding for the aerostat would be in Customs or Defense.

QUESTION: What is the benefit of putting this aerostat in Defense if the Vice President, the Secretary of Treasury, and the Congress have all agreed that Customs does have major drug detection and surveillance mission? Why not just decide right now to keep it in Customs where it belongs and build it into your budgets for FY 1985, 1986, and beyond?

ANSWER: Customs agrees with the position of the Vice President, the Secretary of the Treasury, and the Congress with regard to our having the major drug detection and surveillance mission. However, we also are concerned with how far from our borders we should perform this mission, and whether the specific responsibility for the Bahamas aerostat could not be fulfilled more economically and with greater national benefit by the Department of Defense rather than by Customs.

Although the aerostat we have chosen to acquire is different from the SEEK SKYHOOK systems now operated by the Air Force, we believe their technical and organizational resources for operating aerostat/radar systems and their experience in maintaining permanent overseas sites could permit them to manage or perform the operation of the Bahamas aerostat more efficiently than Customs. In addition, the detection and other sensor capabilities of this aerostat could be more effectively integrated within the air defense network if the system were under Air Force or Defense control. Until such issues are resolved by the Joint Surveillance Committee we believe our position regarding the budget is appropriate.

Air Program: Budget Needed to Do the Job

Commissioner, I have gone back to the drawing board and reconfigured what the Customs air program budget might look like in view of my amendment to buy drug interceptor aircraft.

Even if you assume that Customs will only have one P-3 aircraft for fiscal 1985, and do no related work on P-3s, you will need at least $35.1 million to run the air program. That would cover the cost of operating and maintaining the Cessna leased aircraft and the eigth new purchased interceptors and other things, including the Blackhawks and Cobras. Even if you are successful with OMB and get another $11 million, you will be about $7 million short of what it will take to properly operate and maintain the air program.

QUESTION: What will drop out of the air program if your request to OMB is turned down, reduced, or modified in some way? Be specific.

ANSWER: The Treasury Department request for a budget amendment for an increase of $11 million for operation and maintenance of the air program is intended to support the military aircraft in the Customs fleet; i.e., the modified P-3A, Black Hawk and Cobra helicopters, and OV-1C. If it is turned down, reduced, or modified, we would not be able to operate these aircraft except to the extent that we reduce operation of the remainder of our fleet. In that event, we would seek to operate the mix of Customs and military aircraft that gave us the best interdiction capability within the available funds. This probably would entail not operating several of our unsensored aircraft in order to operate some of the Black Hawks. The extent to which we could operate the remaining Black Hawks, Cobras, P-3A, and OV-1C (in that order), would depend on how much of the $11 million were provided.

Original Request to OMB

Commissioner, you originally requested a budget of $684,456,000, including $38,082,000, for the air program, according to your OMB submission. OMB cut you back about $60 million but only $2 million in the air program.

QUESTION: Tell us five important things that you wanted to do with your original budget request to OMB that you will now not be able to do. Be specific.

ANSWER: Our original budget request for FY 1985 to the Department of the Treasury and to OMB for $684.5 million did include many items which would be useful, but also were not critical to the effective management of our programs, even if these were not authorized. OMB is more aware of the overall governmental requirements than Customs, and their final authorization reflects an optional allocation of resources, which of course Customs is not in position to make.

Five items included in the original budget request to OMB but not included in the FY 1985 budget request to the Congress are:

Description	Amount ($000)
Marine Interdiction Modules	$8.6
Upgrade Regular Airfleet	1.5
Support for Military	8.5
License Plate Readers	1.7
Passport Readers	4.1

Cut In Inspectors

For the second year in a row, the Administration is proposing drastic cutbacks in the Customs inspector work force. Last year, the Administration recommended cutting 820 inspectors and in FY 1985 you are recommending a cut of 452 inspector slots. In your budget book you say that you will be able to absorb this reduction through "improved enforcement through intensive selective examination instead of general review and paper processing." (p. 7) Well, anyone who has been out working with your inspectors and seeing how they do their difficult job knows that they do not do general reviews and push paper. They have great skills and use profiling techniques that are based on selective analysis of potential smugglers, cargo shipments and airlines. So your budget is based on a false premise.

QUESTION: What specific evidence leads you to believe that Customs can maintain its drug enforcement and other law enforcement missions next year with 452 fewer inspectors? Be specific.

ANSWER: Customs has developed several innovative procedures and techniques to facilitate passengers while at the same time enhancing enforcement. One-stop processing, passport readers, red/green inspection systems with citizens bypass, and rovers utilizing observational profiles and stress analysis have significantly increased facilitation and enforcement at airports and seaports. Roving inspectors in the baggage area identify high and low risk travelers. Low risk travelers are allowed to depart the Customs area using a bypass lane.

In cargo operations, the Automated Cargo Clearance and Enforcement Processing Technique (ACCEPT) has been expanded from 4 ports to 19 ports, while another 35 ports have manual ACCEPT utilizing computer printouts. This systematic method of selectivity targets high risk cargo and allows Customs to more effectively employ inspectional personnel. Customs is further developing the Automated Commercial System (ACS) to minimize routine clerical tasks. The emphasis on central entry processing sites and mobile examination teams has improved productivity and resulted in increased enforcement productivity.

Legislative and Reorganization Assumptions

Commissioner, $15.1 million of your proposed cuts in the Customs budget are built on two major assumptions that probably will never happen: (1) that the Congress will adopt legislation amending the Airport and Airway Development Act to allow Customs to charge air carriers for inspectional services in the U.S. on Sundays and holidays (-$7.0 million); and (2) that the Congress will approve major organizational realignments at Customs in 1985, including consolidation of two regions, closing of some offices, and centralizing other ports and offices (-$8.1 million). For the past several years, this Committee and the Congress have strongly opposed such efforts to close offices and realign regional and district offices. Also, I am informed that your chances for amending the Airport and Airway Act are slim to none.

QUESTION: What specific steps will you take to recapture $15.1 million and the 231 positions you assume you won't need next year, if these two major legislative and reorganization proposals are killed by Congress?

ANSWER: The amendment of the Airport and Airways Development Act and organizational consolidations were incorporated in the budget because the Customs Service believes both actions are justified and would in the end provide for better and more efficient service. The Grace Commission supported and recommended that Customs implement both programs.

If these proposed actions are not accepted by the Congress, then Customs would face a shortfall of $15.1 million in FY 1985. Customs options for responding to this problem would involve implementing reductions in various inspection and commercial programs, cutting back on hiring in FY 1985, and delays in recruitment for vacant positions.

QUESTIONS SUBMITTED BY SENATOR LAWTON CHILES

Status of Air Program Funding

On April 3 the Vice President's office announced 5 decisions that were made by the Executive Board of the National Narcotics Border Interdiction system with regard to the Customs Air Program. The 5th of these decisions was that the necessary funding for the Customs air program would come from "Within the Treasury Budget" for FY 1985. So instead of sending up a request for new money for the

Air Program, I understand that you will be sending up a proposal to transfer funds from various Treasury agencies to the Customs Service air program.

QUESTION: What can you tell us about the status of that transfer proposal and when will we see it on the Hill?

ANSWER: The Office of Management and Budget has approved a $15 million dollar amendment to Customs FY 1985 Air Program budget request. The amendment restores the $11 million for O&M for the military aircraft, requested initially from DOD, and $4 million to continue the lease for a large Aerostat balloon located in the Bahamas. The funds for this amendment will be generated internally from the Department of the Treasury.

Status of Restoration of Other Customs Cuts

When Secretary Regan appeared before us, we discussed the December 8th letter to Dave Stockman from Acting Secretary McNamar. That letter represented an appeal of the OMB mark and recommended a number of increases to be partially offset by a reduction of $34.7 million and 476 positions from the Customs Service budget.

QUESTION: Will your transfer proposal only restore the $11 million from the air program, or will it also help restore some of the 954 positions recommended for elimination in the FY 1985 budget?

ANSWER: At this time, there is no change in Customs FY 1985 budget request with regard to its salaries and expenses appropriation. Our budget request for this appropriation is still $585,335,000 and 12,369 average positions, a reduction of 954 average positions from FY 1984.

Status of DOD Surveillance Support

The third decision made at the Vice President's April 2 meeting was to establish a Joint Surveillance Commission "to determine surveillance responsibilities." Secretary Regan's letter of April 2, which provided a summary of the meeting, also mentioned that the Commission would review a number of pending requests that Customs now has with DOD. These include:

- More ROCC radar information
- Increased radar coverage of E-2C and E-3A
- More systematic reporting and recording
- Ensure low speed/altitude aircraft tracked

- More fixed and/or mobile ground based radar, and
- Help expediting C-12 loans.

QUESTION: What is the status of the several requests to DOD and do you feel you are getting enough support from DOD?

ANSWER: ° More ROCC radar information:

Currently the Air Force controllers are assisting Customs personnel assigned to the two ROCC sites on an "as available" basis. We feel the Air Force controllers could provide better coverage and information to Customs during the times the Customs personnel are not on duty by ensuring that all low-speed/low-altitude targets are pointed out to Customs and tracked.

° Increased Radar Coverge of E-2C and E-3A

Navy has assured us that their level of coverage for E-2C's is at the peak available from the Atlantic and Pacific fleets. Any higher levels of coverage would have an adverse impact on their fleet responsibilities and readiness. We also feel that the NNBIS coordinated E-3A flights, in support of the Customs missions, are at the minimum levels given current Air Force resources. I would like to point out the ambiguity in total support hours claimed by Customs versus DOD. DOD starts the coverage "clock" at take-off and ends upon landing. Customs counts only the radar coverage hours once the aircraft is "on-station"; not the en route time.

° More Systematic Reporting and Recording

Procedures of notifying the appropriate USCS air branch of a suspect target needs to be improved. The coordination of launching an interceptor and communicating necessary vectors is critical to a successful interdiction effort. It is paramount that DOD and Customs establish standard procedures for launch and intercept control of Customs interceptors.

° More Fixed and/or Mobile Ground Based Radars

At this time, Customs utilizes, where possible, the fixed DOD ground based radar system when available, including ROCC East/West and two balloon radars in Florida. Customs uses Customs owned mobile TPS-44 and TPS-1G radar systems as well as ground radars furnished by the Marine Corps on an available noninterference basis. We would request that DOD provide additional balloon radars on all segments of the southern border.

- Help Expediting C-12 Loans

We understand that the Army has received approval and funding to replace their C-12 aircraft with C-12D's and can now loan Customs the requested C-12's.

Proposal Likely to Weaken Drug Interdiction Capabilities

The Narcotics Intelligence Consumer Committee estimates that 25 percent of cocaine comes across the land border. Currently Customs devotes approximately 5,900 positions to land border operations while INS devotes only 3,650 positions to this activity. INS is concerned with aliens entering the United States while Customs is concerned with all individuals -- the conveyance, the baggage and what is contained in them. The Administration is supposed to be committed to the war on drugs but it seems to me that the agency with the best trained soldiers for interdicting drugs is being taken out of the border war to be replaced by an agency that has contributed very little to the narcotics enforcement effort.

QUESTION: Do you really believe that this consolidation won't damage our ability to interdict drugs?

ANSWER: The large majority of cocaine and heroin entering the United States enters via air and sea according to the Narcotics Intelligence Consumer Committee. The consolidation proposal will give Customs complete responsibility for primary passenger processing at all air and seaports thus focusing Customs drug interdiction resources in the areas of highest threat.

Drug interdiction at the land borders should show significant improvement for other reasons. Currently drug interdiction is an "add-on" function to the INS mission of alien control. Under the consolidation proposal drug interdiction will become an integral part of the INS mission at land borders. A cadre of trained Customs Inspectors completely conversant with the latest drug interdiction techniques will be transferred to INS under the proposed consolidation plan. These employees will form the nucleus for effective drug enforcement at our land borders.

Customs Keeps Secondary Border Responsibility

The proposal is that Customs will continue to have secondary responsibility along the land borders but will only conduct investigations or examinations of those cases referred to them by INS.

QUESTION: It is my understanding that along the land borders, while INS will have organizational lead, the Customs Service will retain full statutory responsibility of the enforcement of the laws for which you are responsible? Do you believe you can fully execute your statutory responsibility while being given a secondary role to respond only to INS referrals?

ANSWER: The proposed consolidation plan will allow Customs to discharge its statutory responsibilities at our land borders. Customs will retain a strong secondary presence. This presence will serve to keep the INS primary inspectors current and proficient in their statutory Customs responsibilities. All referrals made at land borders will be audited in terms of both quantity and quality against historical records. Any degradation in our ability to enforce statutory requirements will be rapidly identified and jointly resolved by Customs and INS management.

Equipment Transfer

We have been told that among the equipment which will be transferred are 3 or more Customs aircraft and perhaps 2 helicopters that will be assigned to INS. As you know, we have been working for years to give the Customs Service adequate capability in its air program.

QUESTION: How many aircraft would the Customs Service lose in the proposed consolidation with INS and what impact would it have on the capabilities of the Air Program?

ANSWER: Customs Air Program has no intention at this time to transfer any of its current operable fleet to INS. Concurrent with the Customs Air Program Exchange/Sale, INS was notified and did discuss the list of aircraft that could be made available to them. INS expressed interest in a Cessna 206 and a Cessna 207. The Border Patrol Chief pilot inspected the Cessna 206 but INS has not yet made any formal requests for any aircraft. (The C-207 has since been sold through exchange/sale.) INS did not discuss either of the two helicopters on the list. The sale of any of the aircraft on the list would have no impact on the Customs Air Program. INS was desirous of a King Air with infrared tracking equipment, however, Customs refused to even discuss the release, in the near term of such a transaction.

Questions Submitted by Senator Paul Tsongas

Consolidation

QUESTION: The Administration's FY 85 budget proposes merging the Boston Region Customs office with the New York Region. How many federal personnel will be affected, and what is the expected impact of a merged Customs operation on these dedicated employees. Specifically, how many will be RIFFED, how many will be transferred to New York, how many will find other federal employment in the Boston area, and how much latitude will Customs employees have in making such decisions?

ANSWER: Approximately 100 positions will be affected by the proposed merger, but we anticipate only minimal impact on the employees. If possible we will avoid a RIF. Employees will be offered available positions throughout Customs as well as with other agencies. This will be accomplished through Priority Placement Program which will provide displaced employees with first priority on all job vacancies.

QUESTION: What will be the impact on the subsequent attrition and interagency transfers, by highly trained and experienced personnel, on the Customs Service's current operations?

ANSWER: There will be no impact resulting from interagency transfers or attrition on Customs current operations.

Export Administration

The Treasury Department has lobbied heavily to increase its responsibilities for exports. Consideration of new authority under the Export Administration Act is now in the Conference Committee. It is well known that the New England region is a leader in the growing high technology industries. It is less well known that these businesses are heavily dependent on exports. They are also one of the nation's cutting edge's in our head-to-head competition with the Japanese.

QUESTION: What would be the relative volume of export applications to the Customs Service within the currently prescribed regions if the Treasury Department is given increased authority over exports through the Export Administration Act?

ANSWER: At the present time there are two versions of the Export Administration Act being considered by Congress. These are S. 979 and H.R. 3231. Neither bill includes any provision for Customs to administer the application of export licenses. Customs concern in the passage of a new Export Administration Act revolves around enforcement rather than administrative issues. For this reason we see no impact on licensing or the processing of licensing applications with the consolidation of Customs regions.

QUESTION: What would be the impact of attrition or interagency transfers by experienced personnel, due to the proposed merger, on the Customs Service's ability to process an increased work volume from the proposed new export responsibilities?

ANSWER: The merger of regions will not adversely affect any new responsibilities that the Customs Service will receive under the new Export Administration Act. As stated before any new responsibilities will be in the area of enforcement, which is almost the sole propriety of the local district offices who will be virtually unaffected by this merger.

QUESTION: Will not the consolidation of Boston's regional office into New York's adversely affect the ability of New England firms to market their products overseas?

ANSWER: We do not foresee any impact of this merger on the ability of New England firms to market their products overseas. With the exception of enforcement responsibilities which have been noted above, almost all other export responsibilities reside with other agencies which are totally unaffected by this merger.

CONCLUSION OF HEARINGS

Senator ABDNOR. I want to thank all our witnesses today for their testimony, and supposedly this wraps up our oversight for the year. We could conceivably hold another hearing for other purposes, but for the benefit of the other members of the subcommittee who are not here, I want to indicate that Chairman Roybal plans to mark up the bill by early May, so I plan to move the subcommittee's action along on a similar track.

If there is no further business to come before the subcommittee, we will stand in recess subject to the call of the Chair. Thank you all very much.

Mr. VON RAAB. Thank you.

[Whereupon, at 4:20 p.m., Tuesday, April 10, the hearings were concluded, and the subcommittee was recessed, to reconvene subject to the call of the Chair.]

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